

Comprehensive Annual Financial Report

**For the
fiscal year ended
June 30, 2002**

**State of Arizona
Department of Transportation**



Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2002

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Letter of Transmittal.....	i-v
Certificate of Achievement for Excellence in Financial Reporting	vi
List of Principal Officials	vii
Organizational Chart	viii
 FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-12
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets (Exhibit 1)	13
Statement of Activities (Exhibit 2)	14
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds (Exhibit 3)	15-16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Exhibit 3.1)	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit 4)	18-21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 4.1).....	22
Proprietary Fund Financial Statements:	
Statement of Net Assets (Exhibit 5)	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets (Exhibit 6)..	24
Statement of Cash Flows (Exhibit 7)	25
Fiduciary Fund Financial Statements:	
Statement of Net Assets – Agency Funds (Exhibit 8).....	26
Statement of Changes in Assets and Liabilities – Agency Funds (Exhibit 9)	27
Index of Notes to the Financial Statements	28
Notes to the Financial Statements	29-50

Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2002

TABLE OF CONTENTS
(continued)

	Page
Required Supplementary Information (Other than MD&A):	
Schedule of Revenues and Expenditures - Budget and Actual – General Fund (State Highway Fund).....	51-52
Notes to Required Supplementary Information.....	53-54
Information About Infrastructure Assets Reported Using the Modified Approach.....	55-59
 Combining and Individual Fund Statements and Schedules:	
Non-Major Governmental Funds:	
Combining Balance Sheet (Exhibit 10).....	60-61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit 11).....	62-63
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source (Exhibit 12).....	64
Schedule by Function and Activity (Exhibit 13).....	65
Schedule of Changes by Function and Activity (Exhibit 14).....	66
 STATISTICAL SECTION	
Government-wide information:	
Government-wide Expenses by Function (Table 1).....	67
Government-wide Revenues (Table 2).....	68
Fund information:	
General Governmental Expenditures by Function (Table 3).....	69
General Governmental Revenues by Source (Table 4).....	70
Expenditures of Federal Awards (Table 5).....	71
Fuel Tax Rates (Table 6).....	72
Highway User Revenue Fund Collections (Table 7).....	73
Highway User Revenue Fund Distributions (Table 8).....	74
Highway User Revenue Fund Series Bond Coverage (Table 9).....	75
Regional Area Road Fund Series Bond Coverage (Table 10).....	76
Total Public Road Mileage by Highway Class and Governmental Ownership (Table 11).....	77
 Acknowledgements	78

INTRODUCTION



Arizona Department of Transportation
Transportation Services Group
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Jane Dee Hull
Governor

Victor M. Mendez
Director

November 15, 2002

John A. Bogert
Chief of Staff

The Honorable Jane Dee Hull
Governor of the State of Arizona,
Members of the Legislature, and
Citizens of the State of Arizona

The Arizona Department of Transportation (Department) is pleased to submit the comprehensive annual financial report (CAFR) of the Department for the fiscal year ended June 30, 2002. The CAFR is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this letter of transmittal, certificate of achievement in financial reporting, a list of principal officials and the Department's organizational chart. The **Financial Section** includes the independent auditors' report, Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements, required supplementary information (other than MD&A) as well as combining and individual fund statements and schedules. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the Single Audit Act Amendments of 1996 (P.L. 104-156)." In fulfillment of this requirement, the Department prepared this CAFR, for the fiscal year ended June 30, 2002, and contracted with the independent public accounting firm of Deloitte & Touche LLP to audit the financial statements.

The objective of the independent audit was to provide reasonable assurance that the basic financial statements are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Arizona Department of Transportation's basic financial statements for the fiscal year ended June 30, 2002, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

The CAFR includes all funds used to record the financial activity of the Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department.

To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed both to protect the Department's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. The Department's internal control includes both automated controls, which are an integral component of the financial accounting system, and comprehensive policies and procedures. In addition, the Department's Office of Audit and Analysis is an independent unit that reviews accounting controls and performs operational audits of the various divisions and units of the Department. Because the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of



internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

Department Profile

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide a safe and efficient transportation system, together with the means of revenue collection and licensing for Arizona. It serves as the State's public agency to plan, develop, maintain and operate facilities for the efficient movement of people and goods by surface and air throughout the State. The Department has statutory responsibility for carrying out its programs under Arizona Revised Statutes, Titles 28, 35 and 41.

The Department's key responsibilities to its customers include:

- Planning, designing, constructing, and maintaining a statewide transportation system.
- Providing title, registration, and licensing services.
- Providing revenue collection and distribution for both highway user and aviation-related taxes and fees.

The Department's emphasis on providing quality services and products to the citizens of Arizona resulted in the Department being named as recipient of the Arizona's Governor's Award for Quality in 2001. The Department became only the fifth organization to receive the highest level of Arizona State Quality Awards since the awards were created in 1993 joining AVNET, Honeywell Satellite Systems, Raytheon Missile Systems, and the 56th Medical Group of the 56th Fighter Wing as award recipients.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the Governor. The Transportation Board is responsible for the annual update of the Five Year Transportation Facilities Construction Program and awards contracts each month for highway projects. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes and board funding obligations.

The Department is organized into three operating divisions plus a planning division: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division and Transportation Planning Division. The Intermodal Transportation Division is responsible for the management and maintenance of the existing State highway system and related facilities as well as the location, design and construction of new highways and facilities that are a part of the State highway system. The Motor Vehicle Division regulates motor vehicles in the State, processes motor vehicle registrations and drivers' license applications, issues certificates of title for motor vehicles and also operates 23 port-of-entry stations. The Aeronautics Division coordinates general aviation in the State and is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports, and produces an annually updated Five Year Transportation Facilities Construction Program for the Transportation Board, from which the Transportation Board establishes the priorities for highway and airport projects within the State. In addition, the Department has a Transportation Services Group (TSG) that provides support to the Department's operating and planning divisions. Overall, the Department employs approximately 4,800 persons.

Budgetary Controls Upon receipt of the operating budget appropriations bill, allocations are made to organizational levels within each division, including changes such as for pay adjustments. The result is a detailed operating budget which guides the divisions and programs in their financial operation. The Five Year Transportation Facilities Construction Program is included in the Capital Outlay Appropriations bill, as a lump-sum budget without identifying individual projects. In the Land, Building and Improvements portion of that bill, each separate building project is identified for control purposes. This bill also provides funding for building renewal purposes.

The budgets are prepared on a cash basis except that liabilities (encumbrances) incurred before the end of the fiscal year and paid within the next calendar month are charged against that prior fiscal year's budget. With a few exceptions, such as the capital budgets, highway maintenance and special line items, State appropriations typically lapse at the end of the fiscal year.

The Department relies on the Arizona Financial Information System (AFIS) to control total expenditures by appropriation. In addition, the Department utilizes several control features in its internal accounting system (ADVANTAGE) to ensure budgetary compliance and management control. These features include: encumbrance and pre-encumbrance capabilities, appropriation allocation and control capabilities to the expense budget and organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division or appropriation.

Factors Affecting Financial Condition

Arizona Economy With the national economy struggling due to reduced business spending, corporate downsizing and stock market uncertainty, Arizona has not been immune to the economic downturn. The Arizona economy began slowing during the spring of 2001 and was further impacted by the tragic events in September 2001. During fiscal year 2002, Arizona employment growth declined sharply while the interest rates spurred strong new home and motor vehicle sales.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax had mixed results during fiscal year 2002. The HURF collections totaled \$1.092 billion, an increase of 6.6 percent over fiscal year 2001 and 1.0 percent above the forecast. Maricopa County Transportation Excise Tax collections totaled \$268 million, an increase of 1.1 percent over fiscal year 2001, but 4.3 percent below the forecast. The Maricopa County Transportation Excise Tax growth was the lowest since the inception of the tax in 1986.

The Arizona economy is dependent on high tech manufacturing and tourism, which have experienced sharp employment declines as a result of corporate downsizing and fewer tourists. Consumer spending has held up mostly on the strength in new home and motor vehicle sales. However, the current economic uncertainty is not expected to have a significant impact on the Department's future revenues and operating budget. The uncertainty may provide slower growth over the next few years, but Arizona will return to being one of the top states for employment, personal income and population growth.

The Department estimates fiscal year 2003 HURF collections will reach \$1.108 billion, an increase of 2.9 percent over fiscal year 2002. The HURF average compound growth rate for fiscal years 1993 through 2002 has been 4.6 percent. The distribution of HURF revenues in fiscal year 2003 is estimated to be as follows: State Highway Fund \$536 million; Arizona cities and towns \$324 million; Arizona counties \$202 million; Department of Public Safety \$45 million; Economic Strength Project Fund \$0.5 million; and Aviation Special Fund \$0.5 million.

Maricopa County Transportation Excise Tax collections are estimated to be \$276 million in fiscal year 2003, an increase of 3.0 percent over fiscal year 2002. The first half of the year is expected to see little if any growth while the second half of the year should experience growth ranging from 3 to 6 percent. The rebound in the second half of the year relies on the employment and stock markets stabilizing. The Maricopa County Transportation Excise Tax average compound growth rate for fiscal years 1993 through 2002 has been 9.0 percent.

Planned Construction Activity In June 2002, the Transportation Board approved a \$4.027 billion highway construction program as part of the Five Year Transportation Facilities Construction Program for fiscal years 2003 through 2007, which provides funding for highway facilities on both the National Highway System and the statewide system. The Five Year Transportation Facilities Construction Program includes approximately: \$1.179 billion for freeway and expressway construction in Maricopa County funded in large part from the Maricopa County Regional Area Road Fund; \$1.824 billion for system improvements, which includes \$172 million to advance freeway and expressway construction in Maricopa County; \$688 million for system preservation; and \$336 million for system management.

The Regional Freeway Program in Maricopa County that was redefined in 1995 to complete 107 miles of freeways by 2006 has been advanced and expanded to include 40 additional miles on the Santan, South

Mountain (Interim), Grand Avenue and Red Mountain freeways. Under the "2007 Acceleration Plan," 147 miles of new freeways are planned to be opened by the end of 2007. Currently 95 miles have been opened to traffic and 10 more miles are under construction.

As part of the Five Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$555 million Five Year Airport Development Program that includes 961 projects at general aviation and air carrier airports located throughout the State.

Retirement Plan The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee retirement system, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by State statute. Substantially all employees of the Department are covered by the Plan.

Cash Management The Cash Management Unit has responsibility for the Department's investment program in cooperation with the State Treasurer's Office. The Department's policy is to invest public funds for maximum return, while maintaining the safety of investment principal and adequate liquidity to meet cash flow requirements in conformity with State statutes governing investment of the Department's funds. The emphasis of the investment program has focused on maintaining 99.5 percent of cash invested and maximizing the investment yield.

During fiscal year 2002, the Department earned over \$33 million in interest from its investment program. On average, 99.8 percent of the Department's \$844 million average cash balance was invested during the year earning an average yield of 4.2 percent.

Risk Management The Department continues to place emphasis in the area of risk management in order to control exposure and losses. The Office of Risk Management is responsible for the coordination of all activities necessary within the Department, and, in conjunction with the State's Risk Management Division and Attorney General's Office, to investigate and defend the Department from all losses arising from tort liability claims.

The State has a self-insured retention workers' compensation program. The Department's Safety Office has increased its emphasis on training, accident investigation, and the handling of hazardous materials to minimize exposure and injury to employees.

The Department has first dollar replacement value on real property coverage for all losses exceeding \$100 and maintains building and contents coverage for common property perils.

Other Information

Single Audit The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Department's Single Audit information is included in the Single Audit of the State for the fiscal year ended June 30, 2002.

A requirement of the Single Audit is to ensure that adequate internal control is in place and that the Department is in compliance with applicable Federal laws and regulations. The internal control has been reviewed by the United States Department of Transportation's (U.S. DOT) Inspector General on several occasions in the past. The U.S. DOT auditors typically rely on the Department's internal audit staff in determining the scope of their review. These reviews are in addition to the comprehensive review of the Department's internal control previously mentioned.

Awards The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This was the twelfth consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations and Resource Administration whose commitment, professionalism, and dedicated efforts contributed to the timely preparation of the fiscal year 2002 comprehensive annual financial report.

Sincerely,



Victor M. Mendez, Director
Arizona Department of Transportation



John E. McGee, Chief Financial Officer
Arizona Department of Transportation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Arizona Department of
Transportation**

**For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001**

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Chute
President
Jeffrey L. Esler
Executive Director

Arizona Department of Transportation List of Principal Officials

Victor M. Mendez
Director

Debra Brisk
Deputy Director

John A. Bogert
Chief of Staff

Edward D. Wright
State Engineer
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Dale Buskirk
Acting Assistant Director
Transportation Planning Division

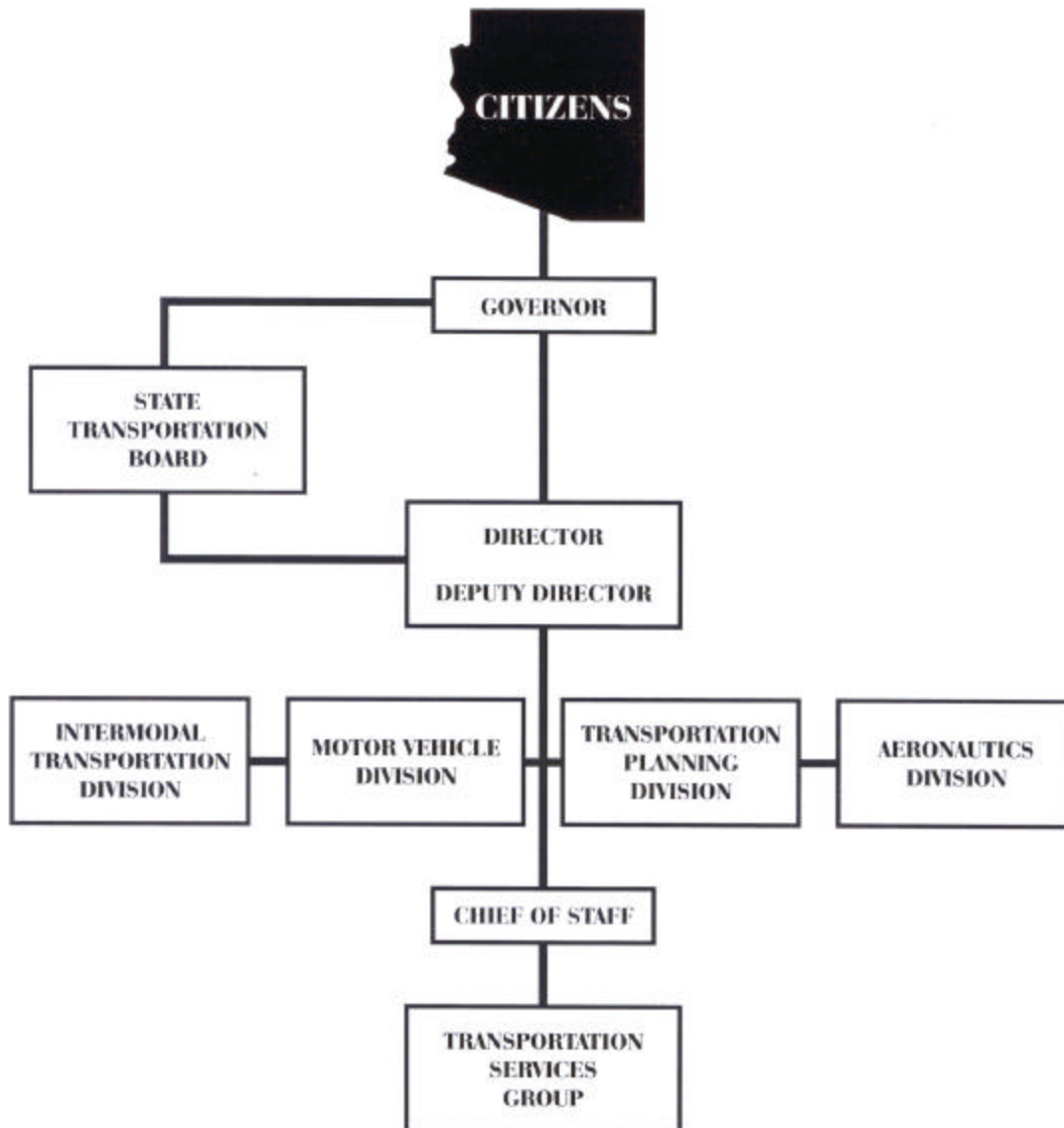
Gary Adams
Assistant Director
Aeronautics Division

John E. McGee
Chief Financial Officer

Arizona State Transportation Board

Katie Dusenberry, Chairman	District Two
Ingo Radicke, Vice Chairman	District Four
Bill Jeffers	District Five
Richard Hileman	District Six
Dallas Gant	District One
James W. Martin	District Three
Joe Lane	District One

State of Arizona Department of Transportation Organizational Chart



FINANCIAL

Deloitte & Touche LLP
Suite 1200
2901 North Central Avenue
Phoenix, Arizona 85012-2799

Tel: (602) 234-5100
Fax: (602) 234-5186
www.us.deloitte.com

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

The Honorable Jane Dee Hull
Governor of the State of Arizona, and
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (the "Department") as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position and cash flows of only that portion of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information that is attributable to the transactions of the Department.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the basic financial statements, in fiscal year 2002, the Department adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Deloitte
Touche
Tohmatsu

The management's discussion and analysis, budgetary comparison information and infrastructure assets reported using the modified approach information on pages 3 through 12, 51 through 54 and 55 through 59 are not a required part of the basic financial statements and are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financials statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, a report has been issued on the consideration of the State of Arizona's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts and grants for which Arizona Department of Transportation is a department. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 15, 2002

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

As management of the Arizona Department of Transportation (Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which can be found on pages i-v and the Department's financial statements, which begin on page 13 with the accompanying notes and required supplementary information (RSI). Because fiscal year 2002 represents the first year in which the Department implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons.

Financial Highlights

Government-wide:

- The assets of the Department exceeded its liabilities at the close of the fiscal year by \$9.7 billion (reported as *total net assets*). Of this amount, \$221.2 million (*unrestricted net assets*) may be used to meet the Department's ongoing obligations to citizens and creditors.
- The Department's investment in capital assets, net of related debt, is \$9.0 billion, resulting from the implementation of GASB 34. GASB 34 requires the Department to include all capital assets (\$10.7 billion) net of its related debt (\$1.7 billion).

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$413.0 million. Approximately \$90.6 million (22 percent) is available for spending at the government's discretion (unreserved fund balance). At the end of the fiscal year, unreserved fund balance for the General Fund was \$67.3 million.
- The proprietary funds reported net assets at year end of \$86.3 million, an increase of \$1.9 million during the year.

Non-Current Liabilities

- The Department's non-current liabilities increased by 8 percent during the fiscal year to \$1.9 billion. This increase can be attributed to issuance of \$100.0 million in Board Funding Obligations (\$60.0 million to the State Highway Fund and \$40.0 million the Highway Expansion and Extension Loan Program Fund (HELP)), \$25.7 million in construction loans from the City of Mesa to Maricopa Regional Area Road Construction Fund, and \$94 million in HELP loans to the State Highway Fund. The bonded debt decreased by \$63.6 million (4 percent) as a result of new issuances, refundings, and repayments.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

For the first time, this report includes government-wide financial statements as required by GASB Statement No. 34.

Government-wide Financial Statements (Reporting the Department as a Whole)

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the statement of net assets and the statement of activities and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

The statement of net assets combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's non-fiduciary assets and liabilities. Net assets are the difference between the Department's assets and liabilities, and represent one measure of the Department's financial health.

- An increase or decrease in the Department's net assets from one year to the next is an indicator of whether its financial health is improving or declining.
- Other indicators of the Department's financial health include the condition of its roads and highways (infrastructure), and economic trends affecting the Department's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department's general tax and other revenues. This statement summarizes the cost of providing specific Department services, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities divide the Department's activities into two types:

Governmental Activities

The Department's basic services are reported here, including administration, aeronautics, highway, highway maintenance, motor vehicle division and other activities. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the Department charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The Department's *Arizona Highways Magazine* and Highway Expansion and Extension Loan Program (HELP) are reported here.

The government-wide financial statements can be found on pages 13-14 of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting) with governmental activities (prepared using the accrual basis of accounting) on the appropriate government-wide statements. The following summarizes the impact of converting to GASB 34 reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Internal service fund is reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Deferred issuance costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, notes payable and others, only appear as liabilities on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.

- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements begin on page 15 and provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. A majority of the Department's activities are reported in governmental funds. Reporting of these funds focuses on how money flows in to and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual method of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Department's general government operations and the basic services it provides. This information should help determine whether there are more or less resources available for the Department's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Department maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund and Capital Projects Fund which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget for the Department's General Fund. The Schedule of Revenues and Expenditures – Budget and Actual has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The governmental funds financial statements can be found on pages 15-22 of this report.

Proprietary Funds. When the Department charges customers for the services it provides – whether to outside customers, other agencies or to other divisions of the Department – these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provides supplies and services to the general public. The Department's enterprise funds are the *Arizona Highways Magazine* Fund and Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Fund is the Department's only internal service fund. The internal service fund is reported as governmental activities on the government-wide statements.

The proprietary funds financial statements can be found on pages 23-25 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary fund financial statement can be found on pages 26-27.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-50 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Department's Schedule of Revenues and Expenditures – Budget and Actual for the General Fund and the modified approach to reporting infrastructure assets. Required supplementary information can be found on pages 51-59 of this report.

Other Supplementary Information. Other supplementary information includes the combining statements for the non-major governmental funds and internal service fund are presented immediately following the required supplementary information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 60-66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial health. The following tables, graphs and analysis discuss the financial position and changes to financial position for the Department as a whole as of and for the fiscal year ended June 30, 2002.

The Department's combined net assets increased by \$861.0 million over the course of this fiscal year's operations. The net assets of the governmental activities increased by \$859.1 million or 99.8 percent and business-type activities increased by \$1.9 million or 0.2 percent.

The following table reflects the condensed Statement of Net Assets as of June 30, 2002:

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 833,488,297	\$235,245,607	\$ 1,068,733,904
Capital assets	<u>10,733,547,800</u>	<u>1,439,057</u>	<u>10,734,986,857</u>
Total assets	11,567,036,097	236,684,664	11,803,720,761
Other liabilities	213,447,052	4,760,226	218,207,278
Non-current liabilities	1,734,806,233	145,670,558	1,880,476,791
Total liabilities	<u>1,948,253,285</u>	<u>150,430,784</u>	<u>2,098,684,069</u>
Net assets:			
Invested in capital assets, net of related debt	8,998,741,567	1,439,057	9,000,180,624
Restricted	400,315,381	83,292,829	483,608,210
Unrestricted	<u>219,725,864</u>	<u>1,521,994</u>	<u>221,247,858</u>
Total net assets	<u>\$ 9,618,782,812</u>	<u>\$ 86,253,880</u>	<u>\$ 9,705,036,692</u>

The total assets of the Department were \$11.8 billion, while total liabilities were \$2.1 billion, resulting in a net assets balance of \$9.7 billion. By far, the largest portion of the Department's net assets, \$9.0 billion (93 percent), were invested in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

As of June 30, 2002, the Department is able to report positive balances in all three categories of net assets, both for the governmental and business-type activities.

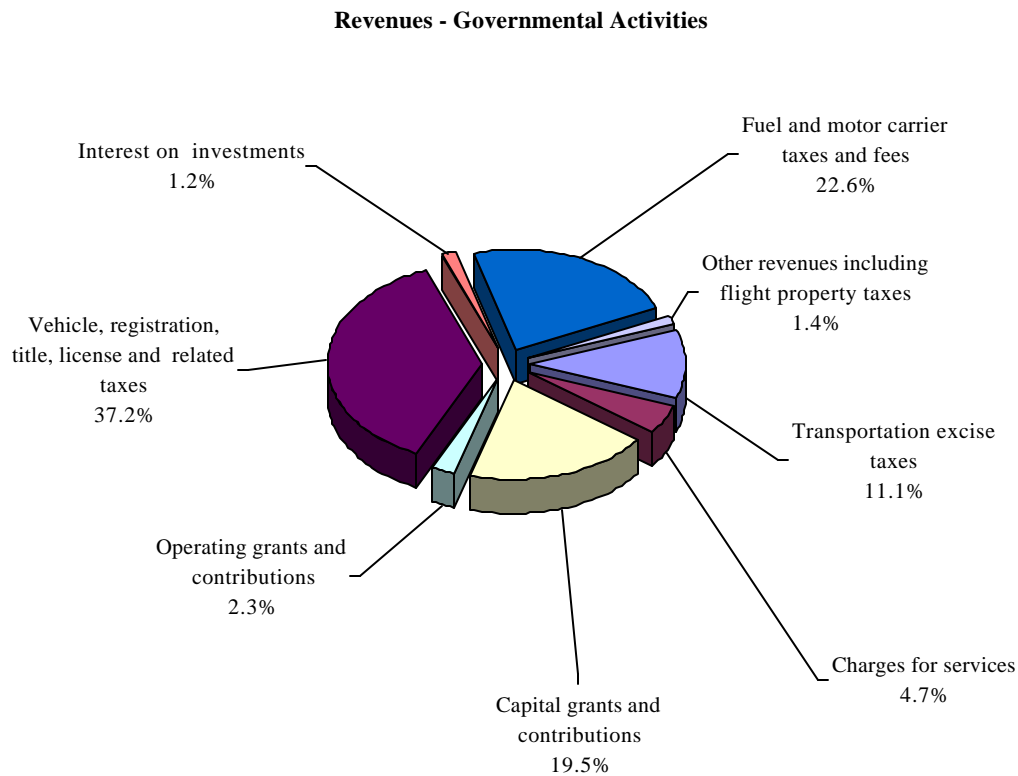
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year:

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 112,724,784	\$ 11,840,350	\$ 124,565,134
Operating grants and contributions	56,480,747	-	56,480,747
Capital grants and contributions	470,771,977	-	470,771,977
General revenues:			
Transportation excise taxes	267,563,343	-	267,563,343
Vehicle, registration, title, license and related taxes	899,092,103	-	899,092,103
Fuel and motor carrier taxes and fees	547,129,189	-	547,129,189
Flight property taxes	6,528,347	-	6,528,347
Interest on investments	29,862,802	5,624,632	35,487,434
Other	<u>26,484,086</u>	<u>381,360</u>	<u>26,865,446</u>
Total revenues	2,416,637,378	17,846,342	2,434,483,720
Expenses:			
Administration	57,864,409	-	57,864,409
Aeronautics	3,750,673	-	3,750,673
Highway	160,481,172	-	160,481,172
Highway Maintenance	91,569,523	-	91,569,523
Motor Vehicle	82,904,097	-	82,904,097
Other	6,844,145	-	6,844,145
Transportation - not appropriated by State legislature	7,482,406	-	7,482,406
Distributions to Arizona counties, cities and other state agencies	1,064,559,675	-	1,064,559,675
Interest on long-term debt	89,604,704	-	89,604,704
Arizona Highways Magazine	-	10,710,728	10,710,728
Highway Expansion and Extension Loan Program	<u>-</u>	<u>5,264,722</u>	<u>5,264,722</u>
Total expenses	1,565,060,804	15,975,450	1,581,036,254
Increase in net assets	851,576,574	1,870,892	853,447,466
Net assets - July 1	<u>8,767,206,238</u>	<u>84,382,988</u>	<u>8,851,589,226</u>
Net assets - June 30	<u>\$ 9,618,782,812</u>	<u>\$ 86,253,880</u>	<u>\$9,705,036,692</u>

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2002:



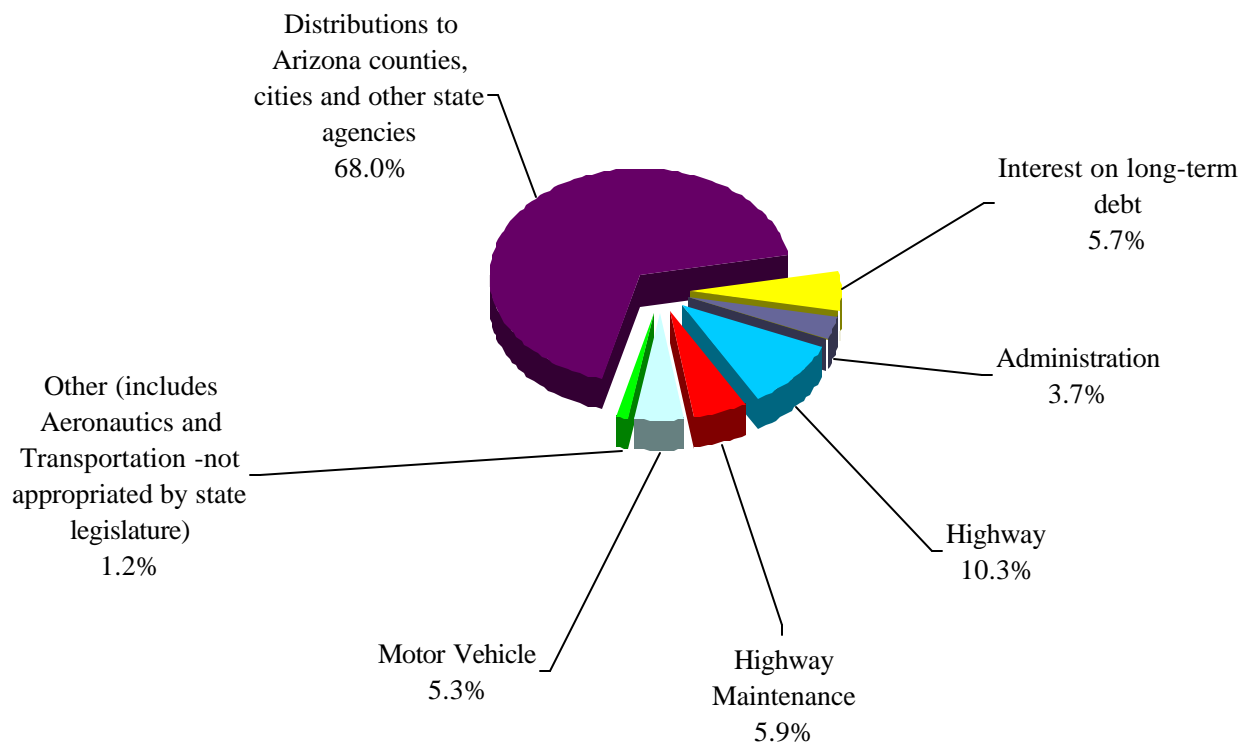
\$2.2 billion (or 90.4 percent) of the Department revenues are from the following four revenue sources:

1. Vehicle, registration, title, license and related taxes represent the Department's largest revenue source of \$899.1 million (37.2 percent).
2. Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$547.1 million (22.6 percent).
3. Capital grants and contributions represent the Department's third largest revenue source of \$470.8 million (19.5 percent).
4. Transportation excise taxes represent the Department's fourth largest revenue source of \$267.6 million (11.1 percent).

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2002:

Expenses - Governmental Activities



Business-Type Activities:

Net assets for business-type activities increased by \$1.9 million during the fiscal year. Of the total revenues of \$17.9 million, charges for services represented 66.3 percent and interest on investments 31.5 percent. The total expenses for business-type activities were \$16.0 million. Factors contributing to these results included:

- The Arizona Highways Magazine's deficit of \$0.6 million. This deficit is attributable to a decrease in magazine sales as a result of the down turn in the economy since the September 11, 2001 terrorist act.
- The Highway Expansion and Extension Loan Program's income of \$2.5 million. The majority of the changes are attributable to an increase in the interest on loan receivables.

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds. The focus of the Department's governmental funds financial statements (page 15-22) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor funds are combined into a single column. Combining statements for the non-major funds may be found on pages 60-63.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$413.0 million. Of this balance, \$90.6 million or 22.0 percent constitutes unreserved fund balance, which was available for spending for the general purposes of the Department. The remaining fund balance of \$322.3 million or 78.0 percent was reserved for the following: 1) \$20.0 million to liquidate an advance to the HELP, 2) \$25.0 million to pay debt service, and 3) \$277.3 million to pay for capital projects.

The General Fund is the chief operating fund of the Department. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$67 million and the reserved fund balance was \$121 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 7 percent of total General Fund expenditures, while total fund balance represents 19 percent of the same amount.

Capital Assets and Debt Administration

Capital Assets (Note 5A):

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$10.7 billion (net of accumulated depreciation).

	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,715,941,418	\$ 7,900	\$ 1,715,949,318
Buildings and improvements	97,635,066	345,600	97,980,666
Improvements other than buildings	12,134,233	-	12,134,233
Airport facilities	19,569,077	-	19,569,077
Mobile fleet and aircraft	41,995,018	-	41,995,018
Machinery and equipment	16,280,578	1,085,557	17,366,135
Infrastructure	7,444,327,275	-	7,444,327,275
Construction in progress	1,385,665,135	-	1,385,665,135
Total	<u>\$10,733,547,800</u>	<u>\$ 1,439,057</u>	<u>\$10,734,986,857</u>

As provided by GASB 34, the Department has elected to record its infrastructure assets using the modified approach. Assets accounted for under the modified approach include approximately 6,650 center lane miles (17,807 travel lane miles) and 4,378 bridges that the Department is responsible for maintaining.

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 poor) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.6 was achieved for fiscal year 2002.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2002, a CRI of 93.6 percent was obtained.

In addition to many smaller projects, the following major highway construction projects in excess of \$20 million were started during fiscal year 2002:

Project Description	Contract Start	Contract Amount
Construction of Pima Loop 101 from Scottsdale Road to Pima Road	07/18/2001	\$ 24,537,697
Construction of the Red Mountain Loop 202 from Gilbert Road to Higley Road	08/21/2001	\$ 46,835,303
Widening of a 5.5 mile section of State Route 260 near Christopher Creek	09/27/2001	\$ 32,500,000
Construction of US 60 (Grand Avenue) Ramps at 27th Avenue and 91st Avenue	09/27/2001	\$ 24,209,923
Reconstruction of the Interstate 10 and Interstate 19 Interchange	04/15/2002	\$ 54,272,422
Construction of the Price Loop 101 and Santan Loop 202 Interchange	04/22/2002	\$ 48,374,811
Construction of the Santan Loop 202 from 56th Street to McClintock Drive	06/24/2002	\$ 38,376,899

Non-Current Liabilities (Note 5H):

Governmental Activities	
Highway revenue bonds	\$ 734,155,000
Transportation excise tax revenue bonds	602,890,000
Grant anticipation notes	182,295,000
Premium on bonds	9,357,653
Compensated absences	11,701,814
Capital leases	1,557,477
Notes payable	192,849,289
Total Governmental Activities	<u>\$ 1,734,806,233</u>
Business-Type Activities	
Compensated absences	\$ 134,092
Notes payable	145,536,466
Total Business-Type Activities	<u>\$ 145,670,558</u>
Total Non-Current Liabilities	<u>\$ 1,880,476,791</u>

As of June 30, 2002, the Department had \$1.52 billion in outstanding bonds payable. This total includes \$734.2 million in Highway Revenue Bonds (HURF), \$602.9 million in Transportation Excise Tax Revenue Bonds (RARF) and \$182.3 million in Grant Anticipation Notes (GANs). The Department has \$9.4 million in unamortized premium on bonds. The Department had capital leases outstanding of \$1.6 million for acquisition of data processing equipment and notes payable of \$338.4 million for the following:

1. General Fund - \$93,979,854 for loans from the HELP and \$60,010,175 for principal and interest for Board Fund Obligations (BFO) for highway constructions.
2. Maricopa Regional Area Road Construction Fund - \$33,166,362 for a loan from the City of Mesa for advance construction of a section of Loop 202.
3. Equipment Fund - \$5,692,898 for purchase of snow plows using capital leases.
4. HELP Fund - \$145,536,466 for principal and interest for BFO used for capitalizing Arizona's State Infrastructure Bank.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2002

The bonds have been sold in 25 separate issues between 1986 and 2002. All bonds outstanding as of June 30, 2002, are scheduled to mature not later than July 1, 2020. The bonds are obligations of the Transportation Board and are not obligations of the State of Arizona.

Of the \$4.0 billion total in bonds issued between 1986 and 2002, \$1.2 billion, or approximately 30 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative debt service savings of \$60 million in current dollars and \$42 million on a present value basis.

The senior lien HURF bonds have been rated AAA/Aa1 by Standard & Poor's Rating Services Group and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds are rated AA/Aa2. The senior lien RARF bonds are rated AA/Aa2, while the subordinate lien RARF bonds are rated A/Aa3. The Grant Anticipation Notes are rated AA-/Aa3/AA with the additional rating provided by Fitch, Inc.

Laws 1999, Chapter 189 (SB 1201), Arizona Revised Statute 28-7678, authorized the Transportation Board to issue nonnegotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. The law restricts the Transportation Board to issuing \$100 million in fiscal years 2000, 2002 and 2004. The BFOs are used to capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the HELP established by this legislation

Laws 2001, Chapter 238 (HB 2636), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1 billion from \$800 million. Additionally, the legislation authorized the Transportation Board to issue an additional \$100 million in BFOs in fiscal year 2002 and increased the BFO authority in fiscal year 2004 to \$200 million from \$100 million. The distribution of this additional BFO authority is \$60 million to the State Highway Fund and \$40 million to the HELP fund in fiscal years 2002 and 2004.

Laws 2002, Chapter 4 (HB 2588), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1.3 billion from \$1.0 billion

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 7th Avenue, Phoenix, Arizona, 85007 or by visiting our website at <http://www.dot.state.az.us/ABOUT/fms/cafr/cindex.htm>.

Basic Financial Statements

Government-wide Financial Statements include the Statement of Net Assets and Net Activities and uses the accrual basis of accounting for financial reporting.

Governmental Fund Financial Statements include Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the major and nonmajor governmental funds and uses the modified basis of accounting for financial reporting. Also includes the reconciliation to the government-wide financial statements.

Proprietary Fund Financial Statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows for the business- type funds and Internal Service Fund and uses the accrual basis accounting for financial reporting.

Statement of Fiduciary Net Assets include Statement of Net Assets for assets being held for parties outside of the Department.

Notes to the Financial Statements

Arizona Department of Transportation
Statement of Net Assets
June 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Unrestricted cash on deposit with the State Treasurer	\$ 186,838,257	\$ 2,301,232	\$ 189,139,489
Receivables:			
Notes and loans	11,570,864	106,119,476	117,690,340
Subscriptions, net of allowance for doubtful accounts	-	456,519	456,519
Accrued interest	4,452,915	674,334	5,127,249
Taxes and fees	102,618,734	-	102,618,734
Other, net of allowance for doubtful accounts	4,774,351	46,801	4,821,152
Due from U.S. Government for reimbursable construction costs	57,592,619	-	57,592,619
Due from Arizona counties, cities and other state agencies	22,324,023	158,953	22,482,976
Internal balances	19,429,740	<19,429,740>	-
Inventories	6,392,123	2,809,704	9,201,827
Prepaid items	-	773,730	773,730
Deferred charges	953,490	-	953,490
Restricted cash on deposit with the State Treasurer	416,541,181	141,334,598	557,875,779
Capital assets not subject to depreciation (Note 5A)	10,565,502,905	7,900	10,565,510,805
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	<u>168,044,895</u>	<u>1,431,157</u>	<u>169,476,052</u>
Total assets	<u>11,567,036,097</u>	<u>236,684,664</u>	<u>11,803,720,761</u>
LIABILITIES			
Accounts payable and other current liabilities	30,260,011	285,006	30,545,017
Accrued payroll and other accrued expenses	4,567,029	63,644	4,630,673
Contracts and retainage payable	81,963,147	-	81,963,147
Judgements payable (Note 5C)	5,120,007	-	5,120,007
Due to Arizona counties, cities and other state agencies	91,536,858	157	91,537,015
Deferred revenues (Note 5D)	-	4,411,419	4,411,419
Non-current liabilities (Note 5H):			
Due within one year	342,763,312	134,092	342,897,404
Due in more than one year	<u>1,392,042,921</u>	<u>145,536,466</u>	<u>1,537,579,387</u>
Total liabilities	<u>1,948,253,285</u>	<u>150,430,784</u>	<u>2,098,684,069</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,998,741,567	1,439,057	9,000,180,624
Restricted for:			
Loans and other financial assistance	-	83,292,829	83,292,829
Debt service	25,939,864	-	25,939,864
Capital projects	374,375,517	-	374,375,517
Unrestricted	219,725,864	1,521,994	221,247,858
Total Net Assets	<u>\$ 9,618,782,812</u>	<u>\$ 86,253,880</u>	<u>\$ 9,705,036,692</u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Activities
For the fiscal year ended June 30, 2002

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 57,864,409	\$ -	\$ -	\$ -	\$ <57,864,409>
Aeronautics	3,750,673	974,016	-	-	<2,776,657>
Highway	160,481,172	-	36,632,493	470,771,977	346,923,298
Highway Maintenance	91,569,523	-	-	-	<91,569,523>
Motor Vehicle	82,904,097	104,298,256	-	-	21,394,159
Other	6,844,145	3,341,440	-	-	<3,502,705>
Transportation - not appropriated by State legislature	7,482,406	-	-	-	<7,482,406>
Distributions to Arizona counties, cities and other state agencies	1,064,559,675	-	-	-	<1,064,559,675>
Intergovernmental	-	4,111,072	19,848,254	-	23,959,326
Interest on long-term debt	<u>89,604,704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><89,604,704></u>
Total governmental activities	1,565,060,804	112,724,784	56,480,747	470,771,977	<925,083,296>
Business-type Activities:					
Arizona Highways Magazine	10,710,728	9,613,848	-	-	<1,096,880>
Highway Expansion and Extension Loan Program	<u>5,264,722</u>	<u>2,226,502</u>	<u>-</u>	<u>-</u>	<u><3,038,220></u>
Total business-type activities	<u>15,975,450</u>	<u>11,840,350</u>	<u>-</u>	<u>-</u>	<u><4,135,100></u>
Total	\$ 1,581,036,254	\$124,565,134	\$ 56,480,747	\$470,771,977	\$ <929,218,396>

	Governmental Activities	Business-type Activities	Total
Net <expenses>	\$ <925,083,296>	\$ <4,135,100>	\$ <929,218,396>
General revenues:			
Transportation excise taxes	267,563,343	-	267,563,343
Vehicle, registration, title, license and related taxes	899,092,103	-	899,092,103
Fuel and motor carrier taxes and fees	547,129,189	-	547,129,189
Flight property taxes	6,528,347	-	6,528,347
Interest on investments	29,862,802	5,624,632	35,487,434
Other	26,484,086	381,360	26,865,446
Total general revenues	1,776,659,870	6,005,992	1,782,665,862
Change in net assets	851,576,574	1,870,892	853,447,466
Net assets - July 1	8,767,206,238	84,382,988	8,851,589,226
Net assets - June 30	\$9,618,782,812	\$ 86,253,880	\$ 9,705,036,692

The notes to the financial statements are an integral part of this statement.

Governmental Fund Financial Statements

MAJOR FUNDS

General Fund (State Highway Fund)

This fund is used to account for all financial transactions applicable to the general operations of the Department. The fund receives money from the Highway User Revenue Fund for vehicle registration, title, license and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the engineering, construction, improvement and maintenance of state highways, parts of highways forming state routes and highways under cooperative agreements with the United States.

Maricopa Regional Area Road Construction Fund

This fund receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways within Maricopa County.

Motor Vehicle Division Clearing Fund

This fund accounts for the collection and disbursement of certain Motor Vehicle Division revenues.

Highway User Revenue Fund

This fund collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and incorporated cities and counties.

Debt Service Fund

This fund is used to administer all payments of principal and interest on bonds and notes issued by the Arizona Department of Transportation Board for Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes.

Capital Projects Fund

This fund is used to administer bond proceeds for Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes. These monies are expended for the construction of federal, state and local highways within the state.

Non-Major Funds

Other Governmental Funds are non-major funds and are all special revenue funds. These funds can be found on Exhibit 10 and Exhibit 11.

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2002

	Special Revenue Funds			
	General	Maricopa	Motor	
	Fund	Regional	Vehicle	Highway
	(State Highway Fund)	Area Road	Division	User
		Construction	Clearing	Revenue
		Fund	Fund	Fund
ASSETS				
Unrestricted cash on deposit with the				
State Treasurer	\$ 159,311,245	\$ -	\$ -	\$ -
Receivables:				
Accrued interest	2,102,767	139,533	-	365,548
Taxes and fees	-	-	8,870,768	93,747,966
Notes and loans	2,313,833	3,877,976	-	-
Other	1,753,897	1,612,954	-	-
Amounts due from:				
Other Arizona Department of Transportation				
funds	79,096,427	-	401,804	9,073,845
U.S. Government	55,995,117	54,663	-	-
Arizona counties, cities and other state agencies	38,010	22,064,262	16	118,493
Inventories	4,082,901	-	-	-
Advance to other Arizona Department of				
Transportation funds	20,000,000	-	-	-
Restricted cash on deposit with the State Treasurer	101,074,669	107,504,344	32,600,254	53,288,913
Total assets	\$ 425,768,866	\$ 135,253,732	\$ 41,872,842	\$ 156,594,765
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	7,054,844	168,022	21,330,245	225,941
Accrued payroll and other accrued				
expenditures	5,913,105	3,137	-	-
Contracts and retainage payable	66,232,654	4,578,431	-	-
Judgements payable	95,310	-	-	-
Amounts due to:				
Other Arizona Department of				
Transportation funds	1,139,084	-	9,329,309	78,966,256
Arizona counties, cities and other				
state agencies	702,312	-	10,226,964	77,402,568
Surety and rental deposits	-	-	986,324	-
Deferred revenue	2,313,833	3,877,976	-	-
Notes payable	153,990,029	33,166,362	-	-
Total liabilities	237,441,171	41,793,928	41,872,842	156,594,765
Fund balances:				
Reserved for:				
Advance to other funds	20,000,000	-	-	-
Debt service	-	-	-	-
Capital projects	101,074,669	93,459,804	-	-
Unreserved	67,253,026	-	-	-
Total fund balances	188,327,695	93,459,804	-	-
Total liabilities and fund balances	\$ 425,768,866	\$ 135,253,732	\$ 41,872,842	\$ 156,594,765

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 23,815,762	\$ 183,127,007
801,061	774,613	246,366	4,429,888
-	-	-	102,618,734
-	-	5,379,055	11,570,864
-	-	1,407,500	4,774,351
-	-	124,924	88,697,000
-	-	1,542,839	57,592,619
-	-	64,992	22,285,773
-	-	-	4,082,901
-	-	-	20,000,000
21,991,955	89,413,357	10,667,689	416,541,181
<u>\$ 22,793,016</u>	<u>\$ 90,187,970</u>	<u>\$ 43,249,127</u>	<u>\$ 915,720,318</u>
3,121	58,156	155,399	28,995,728
-	-	86,154	6,002,396
-	9,094,234	2,057,828	81,963,147
-	3,639,160	1,385,537	5,120,007
-	-	75	89,434,724
-	-	3,205,014	91,536,858
-	-	-	986,324
-	-	5,379,055	11,570,864
-	-	-	<u>187,156,391</u>
<u>3,121</u>	<u>12,791,550</u>	<u>12,269,062</u>	<u>502,766,439</u>
-	-	-	20,000,000
22,789,895	-	2,196,479	24,986,374
-	77,396,420	5,389,066	277,319,959
-	-	<u>23,394,520</u>	<u>90,647,546</u>
22,789,895	77,396,420	30,980,065	412,953,879
<u>\$ 22,793,016</u>	<u>\$ 90,187,970</u>	<u>\$ 43,249,127</u>	<u>\$ 915,720,318</u>

Arizona Department of Transportation
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2002

Total fund balances - governmental funds (Exhibit 3)	\$ 412,953,879
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4B).	10,690,438,239
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (Exhibit 5).	42,542,520
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds (Note 4B).	11,570,864
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4B).	<u><1,538,722,690></u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 9,618,782,812</u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2002

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Revenues:				
Transportation excise taxes	\$ -	\$ 267,563,343	\$ -	\$ -
Vehicle registration, title, license and related taxes and fees	228,894,803	-	273,433,476	462,690,369
Fuel and motor carrier taxes and fees	294,144,373	-	145,961,910	105,418,588
Reimbursement of construction expenditures - federal aid	479,443,294	7,174,684	-	-
Other federal grants and reimbursements	5,388,898	-	-	-
Reimbursements from Arizona counties, cities and other state agencies	5,634,123	2,601,135	-	-
State appropriations	317,478	-	-	-
Interest on loans receivable	418,467	344,136	-	-
Interest on investments	14,388,418	2,469,069	-	1,901,476
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Other	17,101,259	5,637,155	65,574	1,274,683
Total revenues	<u>1,045,731,113</u>	<u>285,789,522</u>	<u>419,460,960</u>	<u>571,285,116</u>
Expenditures:				
Current:				
Transportation - appropriated by State legislature:				
Administration	56,229,911	-	-	-
Highway	43,578,170	-	-	-
Highway maintenance	89,314,437	-	-	-
Motor Vehicle	77,613,135	-	-	-
Aeronautics	-	-	-	-
Other	2,091,895	-	-	-
Total Transportation - appropriated by State legislature	<u>268,827,548</u>	<u>-</u>	<u>-</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 267,563,343
-	-	38,480,412	1,003,499,060
-	-	1,604,318	547,129,189
-	-	30,029,111	516,647,089
-	-	-	5,388,898
-	-	4,111,072	12,346,330
-	-	-	317,478
470,962	-	664,838	1,898,403
3,435,721	6,618,969	883,078	29,696,731
-	-	6,528,347	6,528,347
-	-	941,194	941,194
-	-	958,201	25,036,872
<u>3,906,683</u>	<u>6,618,969</u>	<u>84,200,571</u>	<u>2,416,992,934</u>
-	-	-	56,229,911
-	-	24,791,275	68,369,445
-	-	-	89,314,437
-	-	3,399,274	81,012,409
-	-	3,490,536	3,490,536
<u>274,902</u>	<u>-</u>	<u>1,665</u>	<u>2,368,462</u>
<u>274,902</u>	<u>-</u>	<u>31,682,750</u>	<u>300,785,200</u>

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2002

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Transportation - not appropriated by State legislature	7,479,691	-	-	-
Arizona Department of Public Safety distributions - appropriated by State legislature	25,017,100	-	-	-
State appropriations	3,863,067	-	-	-
Distributions to Arizona counties, cities and other state agencies	232,500	2,234,065	419,460,960	571,285,116
Interest on notes payable	1,228,358	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay	701,666,645	71,870,710	-	-
Total expenditures	1,008,314,909	74,104,775	419,460,960	571,285,116
Excess <deficiency> of revenues over <under> expenditures	37,416,204	211,684,747	-	-
Other financing sources <uses>:				
Transfers in	6,701,604	9,813	-	-
Transfers out debt service	<83,617,343>	<198,055,907>	-	-
Transfer out other	<175,058>	<4,539,240>	-	-
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of refunding bond	-	-	-	-
Premium from sale of bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources <uses>	<77,090,797>	<202,585,334>	-	-
Net change in fund balances	<39,674,593>	9,099,413	-	-
Fund balances - July 1	228,002,288	84,360,391	-	-
Fund balances - June 30	\$ 188,327,695	\$ 93,459,804	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
-	-	-	7,479,691
-	-	-	25,017,100
-	-	-	3,863,067
-	-	45,101,576	1,038,314,217
-	-	-	1,228,358
208,820,000	-	-	208,820,000
84,159,353	-	-	84,159,353
298,631	749,834	-	1,048,465
-	324,228,184	671,162	1,098,436,701
<u>293,552,886</u>	<u>324,978,018</u>	<u>77,455,488</u>	<u>2,769,152,152</u>
<289,646,203>	<318,359,049>	6,745,083	<352,159,218>
291,854,107	-	1,997,753	300,563,277
-	-	<10,180,857>	<291,854,107>
-	<3,899,124>	<95,748>	<8,709,170>
-	142,000,000	-	142,000,000
74,250,000	-	-	74,250,000
3,378,102	6,763,980	-	10,142,082
<77,134,805>	-	-	<77,134,805>
<u>292,347,404</u>	<u>144,864,856</u>	<u><8,278,852></u>	<u>149,257,277</u>
2,701,201	<173,494,193>	<1,533,769>	<202,901,941>
20,088,694	250,890,613	32,513,834	615,855,820
<u>\$ 22,789,895</u>	<u>\$ 77,396,420</u>	<u>\$ 30,980,065</u>	<u>\$ 412,953,879</u>

Arizona Department of Transportation
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the fiscal year ended June 30, 2002

Net change in fund balance - total governmental funds (Exhibit 4) \$ <202,901,941>

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2)
 are different because:

Capital outlays are reported as expenditures in governmental funds (Note 4C). 1,001,780,564

Bond proceeds provide current financial resources to governmental funds.

However, issuing debt increases long-term liabilities in the statement
 of net assets. Governmental funds report the effect of issuance costs,
 premiums, discounts, and similar items when the debt is first issued,
 whereas these amounts are deferred and amortized in the statement
 of activities (Note 4C). <226,392,082>

Repayment of long-term debt is reported as an expenditure in governmental
 funds, but the repayment reduces long-term liabilities in the statement of
 net assets (Note 4C). 281,557,919

Internal service funds are used by management to charge the cost of equipment
 rentals to individual funds. The net loss of the internal service funds
 is reported with governmental activities (Note 4C). <1,989,328>

Some items reported in the statement of activities do not require the use of
 current financial resources and, therefore, are not reported as expenditures
 in governmental funds. <478,558>

Change in net assets of governmental activities (Exhibit 2) \$ 851,576,574

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Financial Statements

MAJOR FUNDS

Arizona Highways Magazine Fund

The Department uses this fund in the publishing and marketing of the Arizona Highways Magazine and various other products that promote the State of Arizona.

Highway Expansion and Extension Loan Program Fund

This fund is an innovative financing mechanism to administer funds designed to provide loans and credit enhancement assistance to sponsors of local transportation projects and the Department.

Non-Major Funds – Internal Service Fund

The Department's own internal service fund, known as the Equipment Fund, purchases and maintains equipment and materials to be used by other funds and state agencies.

Arizona Department of Transportation
Statement of Net Assets
Proprietary Funds
June 30, 2002

	Enterprise Funds			Governmental
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	Activities - Internal Service Fund
ASSETS				
Current assets:				
Unrestricted cash on deposit with the State Treasurer	\$ -	\$ 2,301,232	\$ 2,301,232	\$ 3,711,250
Restricted cash on deposit with the State Treasurer	141,334,598	-	141,334,598	-
Receivables:				
Subscriptions, net of allowance for doubtful accounts	-	456,519	456,519	-
Accrued interest	666,035	8,299	674,334	23,027
Loans	51,019,947	-	51,019,947	-
Other, net allowance for doubtful accounts	-	46,801	46,801	-
Due from other Arizona Department of Transportation funds	571,451	-	571,451	167,818
Due from other state agencies	158,953	-	158,953	38,250
Inventories	-	2,809,704	2,809,704	2,309,222
Prepaid items	-	773,730	773,730	-
Total current assets	193,750,984	6,396,285	200,147,269	6,249,567
Noncurrent assets:				
Loans receivable	55,099,529	-	55,099,529	-
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	1,431,157	1,431,157	43,109,561
Total noncurrent assets	<u>55,099,529</u>	<u>1,439,057</u>	<u>56,538,586</u>	<u>43,109,561</u>
Total assets	<u>248,850,513</u>	<u>7,835,342</u>	<u>256,685,855</u>	<u>49,359,128</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	285,006	285,006	277,959
Accrued payroll and other accrued expenses	3,905	59,739	63,644	225,449
Compensated absences	17,313	116,779	134,092	464,210
Due to other Arizona Department of Transportation funds	-	25	25	1,520
Due to Arizona counties, cities and other state agencies	-	157	157	-
Deferred revenue	-	4,411,419	4,411,419	-
Total current liabilities	21,218	4,873,125	4,894,343	969,138
Noncurrent liabilities:				
Advances from other Arizona Department of Transportation funds	20,000,000	-	20,000,000	-
Compensated absences	-	-	-	154,572
Notes payable	<u>145,536,466</u>	<u>-</u>	<u>145,536,466</u>	<u>5,692,898</u>
Total noncurrent liabilities	165,536,466	-	165,536,466	5,847,470
Total liabilities	<u>165,557,684</u>	<u>4,873,125</u>	<u>170,430,809</u>	<u>6,816,608</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	1,439,057	1,439,057	37,416,663
Restricted for loans and other financial assistance	83,292,829	-	83,292,829	-
Unrestricted	-	1,523,160	1,523,160	5,125,857
Total net assets	\$ 83,292,829	\$ 2,962,217	86,255,046	\$ 42,542,520
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<1,166>	
Net assets of business-type activities			<u>\$ 86,253,880</u>	

Arizona Department of Transportation
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2002

	Enterprise Funds			Governmental
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	Activities - Internal Service Fund
Operating revenues:				
Sales and charges for services	\$ -	\$ 9,613,848	\$ 9,613,848	\$ 29,721,068
Interest on loans receivables	2,226,502	-	2,226,502	-
Other	-	381,360	381,360	907,192
Total operating revenues	<u>2,226,502</u>	<u>9,995,208</u>	<u>12,221,710</u>	<u>30,628,260</u>
Operating expenses:				
Publication and promotional cost	-	4,845,111	4,845,111	-
Repair and maintenance	-	95,154	95,154	5,838,523
Fuel and lubricants	-	-	-	4,603,036
Salaries and related benefits	251,220	2,804,435	3,055,655	10,139,726
Shipping and postage	-	1,642,791	1,642,791	-
Supplies	1,043	106,827	107,870	350,138
Equipment rental	-	45,721	45,721	-
Professional and outside services	139,498	432,533	572,031	603,044
Insurance	-	-	-	605,300
Travel	6,126	15,309	21,435	76,684
Write-off of uncollectible accounts	-	9,399	9,399	-
Interest on notes payable	4,821,052	-	4,821,052	329,673
Depreciation	-	321,683	321,683	8,274,470
Other	45,783	389,715	435,498	875,431
Total operating expenses	<u>5,264,722</u>	<u>10,708,678</u>	<u>15,973,400</u>	<u>31,696,025</u>
Operating loss	<3,038,220>	<713,470>	<3,751,690>	<1,067,765>
Nonoperating revenues <expenses>:				
Interest on investments	5,540,498	84,134	5,624,632	166,071
Loss on sale/disposal of capital assets	-	<884>	<884>	-
Legislative transfer out	-	-	-	<1,088,800>
Total non-operating revenues <expenses>	<u>5,540,498</u>	<u>83,250</u>	<u>5,623,748</u>	<u><922,729></u>
Changes in net assets	2,502,278	<630,220>	1,872,058	<1,990,494>
Total net assets - July 1	<u>80,790,551</u>	<u>3,592,437</u>		<u>44,533,014</u>
Total net assets - June 30	<u>\$ 83,292,829</u>	<u>\$ 2,962,217</u>		<u>\$ 42,542,520</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<1,166>	
Changes in net assets of business-type activities			<u>\$ 1,870,892</u>	

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation

Statement of Cash Flows

Proprietary Funds

For the fiscal year ended June 30, 2002

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
Cash flows from operating activities:				
Receipts from customers	\$ 2,048,346	\$ 9,596,834	\$ 11,645,180	\$ -
Receipts from other funds	9,689,351	-	9,689,351	26,478,489
Receipts from other agencies	3,417,773	157	3,417,930	3,830,314
Payments to suppliers	<26,863>	<7,352,530>	<7,379,393>	<12,984,807>
Payments to employees	<244,291>	<2,811,442>	<3,055,733>	<10,156,125>
Payments to other funds	<75,507,164>	<50>	<75,507,214>	-
Payments to other agencies	<7,037,504>	-	<7,037,504>	-
Other receipts <payments>	<45,785>	393,907	348,122	989,046
Net cash provided <used> by operating activities	<u><67,706,137></u>	<u><173,124></u>	<u><67,879,261></u>	<u>8,156,917</u>
Cash flows from noncapital financing activities:				
Transfer to other agencies	-	-	-	<1,088,800>
Transfer from other agencies	40,000,000	-	40,000,000	-
Net cash provided <used> by noncapital financing activities	<u>40,000,000</u>	<u>-</u>	<u>40,000,000</u>	<u><1,088,800></u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	-	861,179
Acquisition of capital assets	-	<5,851>	<5,851>	<9,823,664>
Net cash used by capital and related financing activities	-	<5,851>	<5,851>	<8,962,485>
Cash flows from investing activities:				
Interest on investments	5,625,847	84,134	5,709,981	166,071
Net cash provided by investing activities	<u>5,625,847</u>	<u>84,134</u>	<u>5,709,981</u>	<u>166,071</u>
Net increase <decrease> in cash	<22,080,290>	<94,841>	<22,175,131>	<1,728,297>
Cash - July 1	163,414,888	2,396,073	165,810,961	5,439,547
Cash - June 30	<u>\$ 141,334,598</u>	<u>\$ 2,301,232</u>	<u>\$ 143,635,830</u>	<u>\$ 3,711,250</u>
Reconciliation of operating income to net cash provided <used> by operating activities:				
Operating <loss>	\$ <3,038,220>	\$ <3,038,220>	\$ <6,076,440>	\$ <1,067,765>
Adjustment to reconcile operating <loss> to net cash provided <used> by operating activities:				
Depreciation	-	321,683	321,683	8,274,470
Net changes in assets and liabilities:				
Receivables	<69,323,867>	14,398	<69,309,469>	81,854
Due from other Arizona Department of Transportation funds	<330,150>	-	<330,150>	97,826
Due from other state agencies	151,994	-	151,994	495,423
Inventories	-	115,072	115,072	139,806
Prepaid expenses	-	<51,920>	<51,920>	-
Accounts payable	-	157,479	157,479	80,532
Accrued payroll and other accrued expenses	<4,259>	4,588	329	10,552
Compensated absence	17,313	<11,595>	5,718	49,733
Due to other Arizona Department of Transportation funds	-	<50>	<50>	1,035
Due to other state agencies	-	157	157	<6,549>
Notes payable	4,821,052	-	4,821,052	-
Deferred revenue	-	<9,466>	<9,466>	-
Net cash provided <used> by operating activities	<u>\$ <67,706,137></u>	<u>\$ <2,497,874></u>	<u>\$ <70,204,011></u>	<u>\$ 8,156,917</u>

Fiduciary Funds

Financial Statements

Highway Properties – Priviledge Tax Fund

This fund collects monies from renters of properties previously acquired by the Department for use in future highway developent. Monies collected are distributed to the Department of Revenue.

Highway Properties – 24% Lieu Tax Fund

This fund collects 24 percent of the Department's rental income from properties for use in future highway development. Monies collected are distributed to the local counties.

Arizona Department of Transportation
Statement of Net Assets
Agency Funds
June 30, 2002

	Highway Properties - Privilege Tax Fund	Highway Properties - 24 % Lieu Tax Fund
ASSETS		
Restricted cash on deposit with the State Treasurer	\$ 237	\$ 365,471
Total assets	<u>\$ 237</u>	<u>\$ 365,471</u>
LIABILITIES		
Due to Department of Revenue	\$ 237	\$ -
Due to Arizona counties	<u>-</u>	<u>365,471</u>
Total liabilities	<u>\$ 237</u>	<u>\$ 365,471</u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Changes in Assets and Liabilities
Agency Funds
June 30, 2002

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
<hr/> Highway Properties - Privilege Tax <hr/>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 282	\$ 4,449	\$ <4,494>	\$ 237
Total assets	<u>\$ 282</u>	<u>\$ 4,449</u>	<u>\$ <4,494></u>	<u>\$ 237</u>
 LIABILITIES				
Due to Department of Revenue	\$ 282	\$ 4,449	\$ <4,494>	\$ 237
Total liabilities	<u>\$ 282</u>	<u>\$ 4,449</u>	<u>\$ <4,494></u>	<u>\$ 237</u>
 <hr/> Highway Properties - 24 % Lieu Tax <hr/>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 412,606	\$ 369,237	\$ <416,372>	\$ 365,471
Total assets	<u>\$ 412,606</u>	<u>\$ 369,237</u>	<u>\$ <416,372></u>	<u>\$ 365,471</u>
 LIABILITIES				
Due to Arizona counties	\$ 412,606	\$ 369,237	\$ <416,372>	\$ 365,471
Total liabilities	<u>\$ 412,606</u>	<u>\$ 369,237</u>	<u>\$ <416,372></u>	<u>\$ 365,471</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Index
Notes to the Financial Statements

	Page
Note 1 – Summary of Significant Accounting Policies	29
A – Reporting Entity	29
B – Government-wide and Fund Financial Statements	29
C – Measurement Focus, Basis of Accounting, and Financial Statement Presentation	30
D – Assets, Liabilities, and Net Assets/Fund Balance	32
E – Revenues and Expenditures/Expenses	35
F – Interfund Activity and Balances	35
Note 2 – Funds by Classification	36
Note 3 – Budgeting, Budgetary Control, and Legal Compliance.....	36
Note 4 – Accounting Changes	37
A – Fund Balance	37
B – Explanations of Reconciling Items of the Balance Sheet of Governmental Fund to the Statement of Net Assets	38
C – Explanations of Reconciling Items of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to Statement of Activities	38
Note 5 – Detailed Notes on all Funds	40
A – Capital Assets	40
B – Construction Commitments	41
C – Judgements Payable	41
D – Deferred Revenues	41
E – Securities Held in Lieu of Retention.....	42
F – Interfund Receivables, Payables, and Transfers	42
G – Leases	43
H – Non-Current Liabilities	44
I – Fund Balances	48
Note 6 – Other Information.....	49
A – Subsequent Events.....	49
B – Contingent Liabilities	49
C – Retirement Plan	50

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Arizona Department of Transportation (Department) conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department's significant accounting policies.

Reporting Entity

The Department is a department of the State of Arizona (State) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, and distributing monies for local airport facilities' projects through a grant program.

The Department is responsible for the construction and maintenance of all state highways. The Department cooperates with the various cities and counties within the state in the construction and maintenance of state roads and with the Federal Highway Administration in the construction and maintenance of interstate and other highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by federal reimbursement, taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions, or enabling legislation.

Unrestricted net assets consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being reported in a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's proprietary funds follow GASB pronouncements and those Financial Accounting Standard Board Statements and Interpretations, Accounting Principle Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or

soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g. federal revenue reimbursements, vehicle license taxes and highway user revenue taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due and payable.

Financial Statement Presentation

The Department reports the following major governmental funds:

The *General Fund*, known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registrations, titles, licenses and related fees; and federal grants.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways within Maricopa County.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues.

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and various cities and counties.

The *debt service fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the governmental funds.

The Department reports the following major proprietary funds:

The *Highway Expansion and Extension Loan Program Fund* (HELP) is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

The *Arizona Highways Magazine Fund* publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

Additionally, the Department reports the following fund types:

The *internal service fund* which accounts for purchases and maintenance of equipment and materials to be used by other divisions in the Department and other government agencies. The Equipment Fund is the Department's only internal service fund.

The *agency funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has two agency funds, the Highway Properties – Privilege Tax and Highway Properties – 24% Lieu Tax.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services and magazine subscriptions. The Department also recognizes as operating revenues interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Department generally expends the restricted resources first, then unrestricted resources as they are needed to maintain appropriate cash balances and finance the construction program.

D. Assets, Liabilities, and Net Assets/Fund Balance

Deposits and Investments

The Department's cash include petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements or obligations of the U.S. Government. All investments are carried at cost, which approximates fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, classification because they are included in the state's investment pool.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Revenue Bond Proceeds Fund relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Proceeds Fund relating to the transportation excise tax revenue bond issues. These funds may be invested by the Treasurer in the state's investment pool.

The Department's investments are included in the state investment pool and these investments are not shown in the Department's name. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between U.S. Government and Arizona counties, cities and other state agencies are reported as "due to/from". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources.

The other receivables and subscriptions receivables are shown net of allowance for doubtful accounts. Other receivables in excess of 180 days comprise the insurance claims net of allowance for doubtful accounts. The subscriptions receivable is equal to two (2) percent of outstanding subscriptions at June 30, 2002.

Notes receivable represents real estate mortgage loans made to individuals purchasing homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Inventories and Prepaid Items

The governmental activities inventory is valued at cost, which approximates market, using the first-in, first-out (FIFO) method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

The business-type activities' inventories are stated at the lower of cost or market. Costs of proprietary fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. Costs of the internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund and the Highway Extension and Expansion Loan Program Fund (enterprise fund) are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. Effective July 1, 1981, state law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund from the Highway User Revenue Fund for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and constructions of federal, state and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, infrastructure and construction in progress are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor.

The Department depreciates non-infrastructure on a straight-line basis using the following estimated useful lives. Modular building are included on the statements assets under the machinery and equipment category, however, modular buildings have an estimated useful life of fifteen (15) years.

Assets	Years
Buildings and improvements	40
Improvements other than building	40
Machinery and equipment	5-15
Mobile fleet and aircraft	5-15

Infrastructure is capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental-type activities column of the statement of net assets. The Department's infrastructure assets

consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated. In addition, expenditures made by the Department to preserve existing roads or bridges are expensed rather than capitalized. Additional disclosures about the condition assessments and maintenance cost regarding the Department's roads and bridges appear in the Required Supplementary Information portion of this report.

Deferred Revenues

In the government-wide statements and proprietary fund financial statements, deferred revenues are recognized when cash, receivables, or other assets are received prior to being earned. In the governmental funds, earned amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the deferred revenues relate to unearned subscriptions' income for the *Arizona Highways Magazine*. Unearned subscription income is recorded when subscription orders are received and is amortized as income over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements, the deferred revenues represent the amount for the notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for exempt employees) which is paid when vacation is taken or upon termination of employment at the individual's then current rate of pay. The liability for vacation outstanding as of June 30 for both the governmental and proprietary fund are reported on the Statement of Net Assets.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balance

The difference between fund assets and liabilities is “Net Assets” on the government-wide, proprietary, and fiduciary fund statements and “Fund Balance” on the governmental fund statements.

Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific purpose, or 2) assets, which by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 5I provides a disaggregation of reserved fund balances.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. Administration, Aeronautics, Highway, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenues include all taxes and interest on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to Arizona counties, cities and other state agencies, Debt service, Capital outlay, etc.).

The Distributions to Arizona cities, counties and other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and non-operating and as sub-classified by object (e.g., salaries, equipment rental, depreciation, etc). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

Other Financing Sources <Uses>

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond proceeds and transfers from other funds. Other financing <uses> are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

F. Interfund Activity and Balances

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g. the transfer of the loss from the Equipment Fund).

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

2. FUNDS BY CLASSIFICATION

The following table lists all of the funds whose balances are reflected in this financial report. The General Fund is subject to annual appropriation and the budget and actual schedule is included in this report under the Required Supplementary Information.

MAJOR FUNDS

Governmental Funds :
 General Fund (State Highway Fund)

Special Revenue Funds:
 Maricopa Regional Area Road
 Construction Fund
 Motor Vehicle Division Clearing Fund
 Highway User Revenue Fund

Debt Service Fund

Capital Projects Fund

Proprietary Funds:
 Arizona Highway Magazine Fund
 Highway Expansion and Extension
 Loan Program Fund

NON-MAJOR FUNDS

Other Governmental Funds:
Special Revenue Funds:
 State Aviation Fund
 Safety Enforcement and Transportation
 Infrastructure Fund
 Motor Vehicle Liability Insurance
 Enforcement Fund
 Vehicle Inspection and Title
 Enforcement Fund
 Grant Anticipation Notes Fund
 Local Agency Deposits Fund
 Motor Carrier Safety Revolving Fund
 Motorcycle Safety Education Fund
 Underground Storage Tank Fund
 Economic Strength Project Fund

FIDUCIARY FUNDS

Agency Funds:
 Highway Properties - Privilege Tax Fund
 Highway Properties - 24% Lieu Tax Fund

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

An annual budget for the operating expenditures and capital outlay including land, building and improvements are submitted to the Governor in accordance with state law for the General Fund. The budgets are legally enacted as appropriations after approval by the state legislature and signature by the Governor. The legal level of control is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be done by the program manager. Transfers of funds between programs require the approval of the Joint Legislative Budget Committee. Absent an amendment to the Department's appropriated amount by the full state legislature, expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations subject to legislative appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the General Fund. Any balances and collections in this fund in excess of the specific amounts appropriated in the general appropriations act are appropriated to the Department. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds and fiduciary funds.

Governments have the option of reporting the budgetary comparison as required supplementary information (RSI) rather than as a basic governmental fund financial statement. Budgetary reporting is required for the General Fund.

4. ACCOUNTING CHANGES

During fiscal year 2002, the Department implemented several new accounting standards issued by GASB:

Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*,

Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Ominibus*, and

Statement No. 38, *Certain Financial Statement Note Disclosures*.

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement’s requirements represent a significant change in the financial reporting model used by the Department, including statement formats and changes in fund types and account groups. In addition to the fund financial statements, governments are required to report government-wide financial statements prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

A. Fund Balance

The provisions of these new standards have been incorporated into the financial statements and notes. The following tables summarize changes to fund equities previously reported on the Combined Balance Sheet. The changes resulted primarily from the implementation of GASB 34, however, the Highway Expansion and Extension Loan Program Fund was reclassified from a governmental fund to a proprietary fund.

Aggregated fund balances of governmental fund types at June 30, 2001 - as previously reported	\$ 615,855,820
Add:	
Capital assets, net of accumulated depreciation	9,688,657,675
Revenues earned but not yet available	11,570,864
Internal Service Fund net assets	44,533,014
Less:	
Long-term liabilities	<1,593,411,135>
Net assets of governmental activities as of July 1, 2001	<u>\$8,767,206,238</u>

B. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets –government activities as reported on the government-wide statement of new assets. The following explanations are necessary to explain these differences between the governmental fund balance sheet and the government-wide statement of net assets:

1. Capital assets are not included on the fund statements but are included on the government-wide statement as follows:

Capital assets	\$10,733,547,800
less Internal Service Fund (Equipment Fund) assets	<43,109,561>
	<u>\$10,690,438,239</u>

2. Deferred revenues for assets shown in fund statements for the following funds:

General Fund	\$ 2,313,833
Maricopa Regional Area Road Construction Fund	3,877,976
State Aviation Fund	5,379,055
	<u>\$ 11,570,864</u>

3. Long-term liabilities including bonds payable are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the \$<1,538,722,690> difference are as follows:

Bonds payable	\$<1,528,697,653>
Deferred charges - issuance cost	953,490
Capital leases	<1,557,477>
Compensated absences	<9,422,216>
Business activity share of Equipment Fund loss	1,166
	<u>\$<1,538,722,690></u>

C. Explanations of Reconciling Items of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide statement of activities. The following explanations are necessary to explain these differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, these costs are removed and capitalized as infrastructure assets as follows:

Capital outlay	\$ 1,098,436,701
Depreciation expense	<7,509,469>
Excess Highway construction included as expenditure in Highway	<89,146,668>
	<u>\$ 1,001,780,564</u>

2. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, the government reports the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. The details of this \$55,165,837 difference are as follows:

Debt issued or incurred:

Issuance of Highway Revenue Bonds	\$ <75,990,000>
Issuance of Transportation Excise Tax Revenue Bonds	<66,010,000>
Issuance of Highway Revenue Refunding Bonds	<74,250,000>
Premium on bonds	<10,142,082>
	<u><226,392,082></u>

Principal repayments:

Highway Revenue Bonds	45,365,000
Transportation Excise Tax Revenue Bonds	163,455,000
Amortization of premium and discount	689,454
Bond issuance costs	1,048,465
Payment to refunded bond escrow agent	71,000,000
	<u>281,557,919</u>
	<u>\$ 55,165,837</u>

3. Some expenses reported in the statement of activities do not required the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Internal Service Fund (Equipment Fund):

Changes in net assets	\$ <1,990,494>
Business activity share of Equipment Fund loss	1,166
	<u>\$ <1,989,328></u>

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

Governmental Activities	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 1,553,704,318	\$ 652,946,396	\$ <490,709,296>	\$ 1,715,941,418
Airport facilities	19,569,077	-	-	19,569,077
Infrastructure	7,170,835,914	280,656,144	<7,164,783>	7,444,327,275
Construction in progress	950,268,339	779,487,283	<344,090,487>	1,385,665,135
Total Capital Assets, not being depreciated	<u>9,694,377,648</u>	<u>1,713,089,823</u>	<u><841,964,566></u>	<u>10,565,502,905</u>
Capital Assets, being depreciated:				
Buildings	135,092,917	7,627,479	<4,403>	142,715,993
Improvements other than buildings	11,058,576	2,321,150	-	13,379,726
Machinery and equipment	44,969,416	4,679,494	<4,836,380>	44,812,530
Mobile Fleet and aircraft	<u>110,376,196</u>	<u>7,293,398</u>	<u><5,378,840></u>	<u>112,290,754</u>
Total Capital Assets, being depreciated	<u>301,497,105</u>	<u>21,921,521</u>	<u><10,219,623></u>	<u>313,199,003</u>
Less accumulated depreciation for:				
Buildings	<42,024,070>	<3,056,857>	-	<45,080,927>
Improvements other than buildings	<974,159>	<271,334>	-	<1,245,493>
Machinery and equipment	<27,472,419>	<4,497,064>	3,437,531	<28,531,952>
Mobile Fleet and aircraft	<u><67,021,036></u>	<u><7,958,684></u>	<u>4,683,984</u>	<u><70,295,736></u>
Total accumulated depreciation	<u><137,491,684></u>	<u><15,783,939></u>	<u>8,121,515</u>	<u><145,154,108></u>
Total Capital Assets, being depreciated, net	<u>164,005,421</u>	<u>6,137,582</u>	<u><2,098,108></u>	<u>168,044,895</u>
Governmental activities capital assets, net	<u>\$ 9,858,383,069</u>	<u>\$ 1,719,227,405</u>	<u>\$ <844,062,674></u>	<u>\$ 10,733,547,800</u>
Business-Type Activities	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 7,900	\$ -	\$ -	\$ 7,900
Capital Assets, being depreciated:				
Buildings	981,157	-	-	981,157
Machinery and equipment	<u>2,427,692</u>	<u>5,850</u>	<u><8,837></u>	<u>2,424,705</u>
Total Capital Assets, being depreciated	<u>3,408,849</u>	<u>5,850</u>	<u><8,837></u>	<u>3,405,862</u>
Less accumulated depreciation for:				
Buildings	<601,741>	<33,816>	-	<635,557>
Machinery and equipment	<u><1,059,235></u>	<u><287,867></u>	<u>7,954</u>	<u><1,339,148></u>
Total accumulated depreciation	<u><1,660,976></u>	<u><321,683></u>	<u>7,954</u>	<u><1,974,705></u>
Total Capital Assets, being depreciated, net	<u>1,747,873</u>	<u><315,833></u>	<u><883></u>	<u>1,431,157</u>
Business type activities capital assets, net	<u>\$ 1,755,773</u>	<u>\$ <315,833></u>	<u>\$ <883></u>	<u>\$ 1,439,057</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 1,513,656
Aeronautics	260,292
Highway	2,515,771
Highway Maintenance	1,422,250
Motor Vehicle	1,797,500
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	<u>8,274,470</u>
Total depreciation expense - governmental activities	<u>\$ 15,783,939</u>
Business-Type Activities	
Arizona Highways Magazine Fund	<u>\$ 321,683</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2002, were \$686,200,067.

	Spent-to-Date	Remaining Commitments
Construction Contracts:		
Rural Roadways	\$ 326,462,448	\$ 149,734,243
Small Urban Roadways	52,450,641	6,633,783
Urban Roadways	269,513,722	111,932,998
Large Urban Roadways	<u>241,819,754</u>	<u>221,769,899</u>
Sub-total	890,246,565	490,070,923
Design Contracts	668,270,824	98,288,955
Other Commitments	130,393,229	97,840,189
Total	<u>\$ 1,688,910,618</u>	<u>\$ 686,200,067</u>

C. Judgements Payable

Judgements payable represent assessments by the Maricopa County Superior Court for land condemnation settlements (\$3,734,470) and violation of a "Most Favored Nation" clause for the Grand Canyon Airlines, Inc. (\$1,385,537) that was paid in July 2002.

D. Deferred Revenues

In the fund financial statements, the deferred revenues represent the amount for notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiways extension, runways, etc. These loans were made at a fixed rate and with various maturities. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2002:

Governmental Funds:	
General Fund	\$ 2,313,833
Maricopa Regional Area	
Road Construction Fund	3,877,976
State Aviation Fund	<u>5,379,055</u>
Total Governmental Funds	<u>\$11,570,864</u>

Proprietary Fund:	
Arizona Highways Magazine Fund	<u>\$ 4,411,419</u>

E. Securities Held in Lieu of Retention

In accordance with Arizona law, a contractor may assign to the Department, securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313 (Eligible Investments). At June 30, 2002, the bank held assignment on securities aggregating approximately \$33 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

F. Interfund Receivables, Payables, and Transfers

The balances of current interfund receivables and payables as of June 30, 2002, were:

Due to/from other funds:		
Receivable Fund	Payable Fund	Amount
General Fund	Highway User Revenue Fund	\$ 78,966,256
	Motor Vehicle Division Clearing Fund	128,551
	Motor Vehicle Liability Insurance	
	Enforcement Fund	50
	Equipment Fund	1,520
	Arizona Highways Magazine Fund	25
	State Aviation Fund	25
Highway Expansion and Extension Loan Program Fund	General Fund	571,451
Equipment Fund	General Fund	167,818
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	8,966,416
	General Fund	107,429
Motor Vehicle Division Clearing Fund	Motor Vehicle Division Clearing Fund	109,987
	General Fund	291,817
Non-major governmental funds	Motor Vehicle Division Clearing Fund	124,924
		<u>\$ 89,436,269</u>
Advance from/to other funds:		
Receivable Fund	Payable Fund	Amount
General Fund	Highway Expansion and Extension Loan Program Fund	\$ 20,000,000

The General Fund receivable of \$78,966,256 is an accrual for fuel tax revenues due in fiscal year 2002 from the Highway User Revenue Fund that were collected in fiscal year 2003.

The Highway User Revenue Fund receivable of \$8,966,416 is an accrual for vehicle license taxes due in fiscal year 2002 from Motor Vehicle Division Clearing Fund that were collected in fiscal year 2003.

In a prior fiscal year, the General Fund loaned \$20 million to the Highway Expansion and Extension Loan Program Fund to increase its loan capacity. The advance is due no later than December 31, 2008.

Interfund transfers for the year ended June 30, 2002, consisted of the following:

	Transfer In:				
	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Transfer Out:					
General Fund	\$ -	\$ 9,813	\$ 83,617,343	\$ 165,245	\$ 83,792,401
Capital Projects Fund	2,066,616	-	-	1,832,508	3,899,124
Maricopa Regional Area Road Construction Fund	4,539,240	-	198,055,907	-	202,595,147
Non-major Governmental Funds	95,748	-	10,180,857	-	10,276,605
Total Transfers Out	<u>\$ 6,701,604</u>	<u>\$ 9,813</u>	<u>\$291,854,107</u>	<u>\$1,997,753</u>	<u>\$ 300,563,277</u>

The General Fund (\$83,617,343) and the Maricopa Regional Area Road Construction Fund (\$198,055,907) made transfers to the Debt Service Fund to pay bond debt service.

G. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2002, approximated \$4,460,000.

In fiscal year 2002, the Department renegotiated its long-term lease with the City of Phoenix for a facility located on Washington Street in Phoenix. The future operating lease commitments are as follows:

Year ending June 30	Amount
2003	654,520
2004	695,427
2005	736,335
2006	777,243
2007	818,150
Future operating lease commitments	<u>\$ 3,681,675</u>

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of modular buildings and data processing equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Machinery and equipment	\$ 2,586,915
Less accumulated depreciation	<u><324,944></u>
Total	<u>\$ 2,261,971</u>

The future minimum lease obligations and the net present value of these minimums lease payments as of June 30, 2002, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2003	\$ 513,985
2004	489,702
2005	374,237
2006	252,874
2007	69,593
Total minimum lease payments	1,700,391
Less amount representing interest	<u><142,914></u>
Present value of minimum lease payments	<u>\$ 1,557,477</u>

H. Non-Current Liabilities

State of Arizona Highway Revenue Bonds

The Transportation Board issued Senior and Subordinated Highway Revenue Bonds to provide funds for acquisition of right-of-way and construction of federal, state and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$700,280,000. During the year, Highway Revenue Bonds totaling \$150,240,000 were issued to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay costs of issuing the Bonds, and (iii) refund in advance of maturity portions of the Board's outstanding Senior and Subordinated Bonds in the aggregate principal amount of \$71,000,000.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the General Fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding \$1.3 billion. Highway Revenue Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.2% - 8.8%	\$ 314,770,000
Governmental activities - refunding	2.3% - 6.0%	<u>419,385,000</u>
		<u>\$ 734,155,000</u>

Annual debt service requirements to maturity for Highway Revenue Bonds are as follows:

Fiscal year ending June 30	Highway Revenue Bonds	
	Principal	Interest
2003	\$ 44,490,000	\$ 38,787,292
2004	50,075,000	36,420,980
2005	52,110,000	33,705,024
2006	55,455,000	30,912,416
2007	56,760,000	27,913,864
2008-2012	287,480,000	91,697,002
2013-2017	125,555,000	34,611,814
2018-2020	<u>62,230,000</u>	<u>6,092,888</u>
	<u>\$ 734,155,000</u>	<u>\$ 300,141,280</u>

State of Arizona Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Bond Fund is used to record all payments of principal and interest for bonds issued by the Transportation Board. The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$700,335,000. During the year, Transportation Excise Tax Revenue Bonds totaling \$66,010,000 were issued to (i) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (ii) pay costs of issuing the Bonds.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating \$70,063,698 at June 30, 2002) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2002, the carrying basis was \$45,409,692. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of \$51,500,000.

All Transportation Excise Tax Revenue Bonds mature no later than December 31, 2005. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	3.8% - 6.5%	\$329,555,000
Governmental activities - capital appreciation	7.3% - 7.5%	51,500,000
Governmental activities - refunding	4.5% - 6.5%	<u>221,835,000</u>
		<u>\$602,890,000</u>

Annual debt service requirements to maturity for Transportation Excise Tax Revenue Bonds are as follows:

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds	
	Principal	Interest
2003	\$ 192,290,000	\$ 28,605,218
2004	200,650,000	20,245,235
2005	<u>209,950,000</u>	<u>10,947,652</u>
	<u>\$ 602,890,000</u>	<u>\$ 59,798,105</u>

State of Arizona Grant Anticipation Notes

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of grant anticipation notes issued was \$182,295,000.

Grant Anticipation Notes currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	4.0% - 5.3%	\$ 182,295,000

Annual debt service requirements to maturity for Grant Anticipation Notes are as follows:

Fiscal year ending June 30	Grant Anticipation Notes	
	Principal	Interest
2003	\$ 13,150,000	\$ 8,683,403
2004	36,755,000	7,488,470
2005	49,000,000	5,400,850
2006	38,540,000	3,209,175
2007	37,000,000	1,307,500
2008	<u>7,850,000</u>	<u>196,250</u>
	<u>\$ 182,295,000</u>	<u>\$ 26,285,648</u>

Notes Payable

The Department's outstanding notes payable as of June 30, 2002 was \$338,385,755. The governmental activities notes payable was \$192,849,289 and business-type activities was \$145,536,898. The notes payable represent the General Fund loan payable to HELP for \$93,979,854, the Maricopa Regional Area Road Construction Fund loan payable to the City of Mesa for \$33,166,362, the Equipment Fund loan payable to creditors for \$5,692,898 and the Board Funding Obligations for loans from State Treasurer for \$205,546,641. The total outstanding for Board Funding Obligations are as follows:

1. Laws 1999, Chapter 189 (SB 1201) authorized a Board Funding Obligation (BFO) of \$100,000,000 to HELP in fiscal year 2000. Both the principal and interest of the BFO are due on March 14, 2004 (\$43,115,200) and June 27, 2004 (\$62,314,614) respectively.
2. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$40,000,000 to HELP in fiscal year 2002. Interest accrued to date is \$106,652. Both the principal and interest of the BFO are due no later than May 31, 2004.
3. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$60,000,000 to the State Highway Fund in fiscal year 2002. Interest accrued to date is \$10,175. Both the principal and interest of the BFO are due no later than May 31, 2004.

Refunded Bonds Deposited with Escrow Agents

In prior years (\$61,346,156) and fiscal year 2002 (\$71,000,000), the Transportation Board refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Department.

The Department advance refunded the Highway Revenue Subordinated Series 1992 B Bonds (\$6,870,000) and Senior Series 1999 Bonds (\$64,130,000) to reduce its total debt service payments by \$2,820,875 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt of) of \$2,473,048.

Refunded bonds of the Department deposited with escrow agents at June 30, 2002, are as follows:

Original Issue	Type	Escrow	
		Maturity Date	Balance
1992 Series B, Subordinated	Highway Revenue Bonds	July 1, 2002	\$ 59,220,000
1999 Senior	Highway Revenue Bonds	July 1, 2009	64,130,000
1988 Series A	Transportation Excise Tax Revenue Bonds		
	Capital Appreciation Bonds	July 1, 2005	<u>8,996,156</u>
	Total refunded bonds deposited with		
	escrow agents		<u>\$ 132,346,156</u>

Changes in non-current liabilities

The activity for the year ended June 30, 2002, was as follows:

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Due Within One Year
Governmental Activities:					
Bonds and Notes:					
Highway Revenue Bonds	\$ 700,280,000	\$ 150,240,000	\$ <116,365,000>	\$ 734,155,000	\$ 44,490,000
Transportation Excise Tax					
Tax Revenue Bonds	700,335,000	66,010,000	<163,455,000>	602,890,000	192,290,000
Grant Anticipation Notes	182,295,000	-	-	182,295,000	13,150,000
Premium on Bonds	-	10,142,082	<784,429>	9,357,653	1,259,733
Total bonds and notes	1,582,910,000	226,392,082	<280,604,429>	1,528,697,653	251,189,733
Capital leases	1,370,161	858,874	<671,558>	1,557,477	454,330
Compensated absences	9,512,707	12,282,131	<10,093,024>	11,701,814	8,946,773
Notes payable	47,673,301	157,034,194	<11,858,206>	192,849,289	82,172,476
Total governmental activities	<u>\$1,641,466,169</u>	<u>\$ 396,567,281</u>	<u>\$ <303,227,217></u>	<u>\$ 1,734,806,233</u>	<u>\$ 342,763,312</u>
Business-type Activities:					
Compensated absences	\$ 128,374	\$ 192,524	\$ <186,806>	\$ 134,092	\$ 134,092
Notes payable	100,715,414	44,821,052	-	145,536,466	-
Total business-type activities	<u>\$ 100,843,788</u>	<u>\$ 45,013,576</u>	<u>\$ <186,806></u>	<u>\$ 145,670,558</u>	<u>\$ 134,092</u>
Total non-current liabilities	<u>\$1,742,309,957</u>	<u>\$ 441,580,857</u>	<u>\$ <303,414,023></u>	<u>\$ 1,880,476,791</u>	<u>\$ 342,897,404</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$618,782 of internal service funds compensated absences and \$5,692,898 of notes payable are included in the above amounts.

I. Fund Balances

Reservations

The line entitled "Reserved Fund Balances" on the Governmental Funds Balance Sheet at June 30, 2002, consist of the following:

	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Reserved Fund Balances:						
Advance to other funds	\$ 20,000,000	\$ -	\$ -	\$ -	\$ -	\$ 20,000,000
Debt Service	-	-	22,789,895	-	2,196,479	24,986,374
Capital Projects Fund	<u>101,074,669</u>	<u>93,459,804</u>	<u>-</u>	<u>77,396,420</u>	<u>5,389,066</u>	<u>277,319,959</u>
Total Reserved Fund Balances	<u>\$ 121,074,669</u>	<u>\$93,459,804</u>	<u>\$22,789,895</u>	<u>\$77,396,420</u>	<u>\$ 7,585,545</u>	<u>\$322,306,333</u>

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund from the Highway User Revenue Fund for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2002, approximately \$97.8 million was reserved in the General Fund for this purpose. The remaining \$3.3 million was restricted for highway construction from Federal Highway Fatality monies. The advance to the General Fund for \$20.0 million is reserved for the receivable from the Highway Expansion and Extension Loan Program Fund.

The Maricopa Regional Area Road Construction Fund is reserved for capital projects. Capital Projects Fund is reserved for capital projects based on the debt covenants. The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

On August 22, 2002, the Department issued \$80,475,000 in Transportation Excise Tax Revenue Bonds (2002 Series) to (i) finance the costs of design, right-of-way purchase, or construction of certain controlled-access highways within Maricopa County, Arizona, (ii) refund in advance of maturity portions of the Board's outstanding Senior Bonds in the aggregate principal amount of \$4,550,000 and (iii) pay costs of issuing the Bonds. The 2002 Series Bonds are due July 1, 2005 and December 31, 2005. Net proceeds totaled \$84,783,649 (after receipt of \$4,781,020 of reoffering premium and payment of \$472,371 in underwriting fees and cost of issuance).

On November 13, 2002, the Department issued \$156,475,000 in Arizona Transportation Board Highway Revenue Bonds, Series 2002B to (i) finance portions of the Board's Five Year Transportation Facilities Construction Program, (ii) advance refund portions of the Board's outstanding Senior Bonds in the aggregate principal amount of \$20,405,000, and (iii) pay costs of issuing the Bonds. The Series 2002B Bonds are due July 1, 2007 through July 1, 2022. Net proceeds totaled \$165,000,189 (after receipt of \$9,461,606 reoffering premium and payment of \$936,417 in underwriting fees and cost of issuance).

B. Contingent Liabilities

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the state's self-insurance program, and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the state's self-insurance program. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department's fund types.

On August 5, 1999, in *Hurley Trucking Co., Inc. v. State*, the Tax Court of the State, overturning an order by a Department Administrative Law Judge, ruled in favor of a refund claim for motor vehicle use fuel (diesel) taxes and motor carrier taxes (based on weight and mileage) paid to the State (the "Disputed Revenues"). Hurley asserts that the applicable statutes at the time did not permit the State to collect Disputed Revenues for certain tax years prior to 1997 relating to travel on state maintained roads crossing federal lands. The Arizona Legislature subsequently clarified the statutes in 1997. On appeal, the Arizona Court of Appeals on January 29, 2002, reversed the Tax Court judgment and remanded the case with directions to affirm the Administrative Law Judge's order. Hurley petitioned the Arizona Supreme Court to review the decision of

the appellate court; and on May 21, 2002, the Arizona Supreme Court denied the plaintiff's petition. However, the Arizona Supreme Court ordered the Court of Appeals not to publish its opinion. On July 10, 2002, the Arizona Tax Court entered a Judgement on Mandate affirming the administrative hearing decision that Hurley was not entitled to a refund.

Several trucking companies also filed administrative claims. These claims were held in abeyance pending the outcome of the Hurley lawsuit. Currently, the Department is in the process of determining whether the claimants intend to pursue their claims further in light of the court's decision in Hurley. The Department disputes the claimant's interpretation of the applicable statutes and intends to continue a vigorous defense. However, if the claimants were to prevail, the maximum potential amount of the claim is difficult to predict with certainty because the amount of each claim would vary based on the nature of the actual roads used and mileage of each claimant. If the claimants were to prevail on all counts and all existing claimants were to receive a lump sum payment in a single fiscal year, the Department does not believe that the maximum potential payment from the Arizona Highway User Revenue Fund would reduce the amount of State Highway Fund revenues by more than ten percent (10%) for the single fiscal year in which such payment were made.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

C. Retirement Plan

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer defined benefit pension plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by state statute. Substantially all employees of the Department are covered by the Plan.

The Arizona State Retirement System (System) issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P. O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 2002, was computed to be 2.49 percent of covered payroll by an actuarial valuation performed at June 30, 2000. Contributions for the years ended June 30, 2000, 2001 and 2002 were \$3,877,921, \$4,032,399 and \$3,959,972, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

The Department's total payroll for fiscal year 2002 was \$159.8 million. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the fiscal year ended June 30, 2002, was actuarially computed to be 2.49 percent of covered payroll by an actuarial valuation performed at June 30, 2000. The contribution requirement for fiscal year 2002 was \$4 million by both the employees and the Department.

Required Supplementary Information

(Other than MD&A)

Arizona Department of Transportation
Required Supplementary Information

Schedule of Revenues and Expenditures -
Budget and Actual - General Fund (State Highway Fund)
For the fiscal year ended June 30, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
Revenues:				
Vehicle registration, title, license and related fees	\$ 229,429,500	\$ 229,429,500	\$ 227,672,882	\$ <1,756,618>
Fuel and motor carrier taxes	<u>297,608,900</u>	<u>297,609,900</u>	<u>292,498,298</u>	<u><5,111,602></u>
Total revenues	<u>527,038,400</u>	<u>527,039,400</u>	<u>520,171,180</u>	<u><6,868,220></u>
Expenditures appropriated by state legislature in 2002 budget:				
Administration:				
Personal services	17,819,900	18,809,340	18,818,139	<8,799>
Employee related expenditures	4,169,000	4,296,735	4,296,703	32
Other operating expenditures	33,878,800	31,202,325	30,528,929	673,396
Attorney General Legal Service	<u>2,045,100</u>	<u>2,022,900</u>	<u>2,022,900</u>	<u>-</u>
Total Administration	57,912,800	56,331,300	55,666,671	664,629
Highways:				
Personal services	33,259,500	30,770,900	30,749,668	21,232
Employee related expenditures	7,466,100	6,829,300	6,825,537	3,763
Other operating expenditures	<u>5,268,600</u>	<u>6,581,000</u>	<u>5,886,834</u>	<u>694,166</u>
Total Highways	<u>45,994,200</u>	<u>44,181,200</u>	<u>43,462,039</u>	<u>719,161</u>
Highway Maintenance:				
Personal services	27,330,300	29,500,000	28,464,094	1,035,906
Employee related expenditures	7,402,900	8,655,500	8,636,270	19,230
Other operating expenditures	59,810,600	52,220,400	49,753,668	2,466,732
Maintenance carryover	<u>2,398,708</u>	<u>2,398,708</u>	<u>2,398,451</u>	<u>257</u>
Total Highway Maintenance	96,942,508	92,774,608	89,252,483	3,522,125
Motor Vehicle:				
Personal services	44,220,400	41,974,100	41,795,384	178,716
Employee related expenditures	11,407,000	11,855,400	11,739,309	116,091
Other operating expenditures	19,626,000	18,886,000	17,735,349	1,150,651
Fee Accounting and Revenue Management System	1,117,681	1,117,681	719,452	398,229
Integrated Inventory System	634,873	634,873	314,462	320,411
Security Enhancement Issue	2,250,400	2,250,400	75,938	2,174,462
License plates and tabs	2,295,300	2,295,300	2,295,285	15

(continued)

Arizona Department of Transportation
Required Supplementary Information

Schedule of Revenues and Expenditures -
Budget and Actual - General Fund (State Highway Fund)
For the fiscal year ended June 30, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive <Negative>
Motor Vehicle (continued):				
Public Information Service	\$ 200,000	\$ 200,000	\$ 183,547	\$ 16,453
Plate and Fee to Owner	706,727	706,727	631,657	75,070
MVD One-time Trailer Fees Administration	180,000	180,000	135,715	44,285
MVD Electronic Certificate of Title System	283,000	283,000	22,741	260,259
MVD Attorney General Legal Services	132,600	132,600	131,856	744
Abandoned Vehicle Administration	462,200	462,200	436,826	25,374
Total Motor Vehicle Division	<u>83,516,181</u>	<u>80,978,281</u>	<u>76,217,521</u>	<u>4,760,760</u>
Air Quality Programs:				
Administration air quality project:				
Personal services	37,500	37,000	36,600	400
Employee related expenditures	11,000	10,900	11,200	<300>
Other operating expenditures	<u>200</u>	<u>200</u>	<u>200</u>	<u>-</u>
Total Air Quality Programs	<u>48,700</u>	<u>48,100</u>	<u>48,000</u>	<u>100</u>
State General Fund Program:				
Public transit:				
Personal services	53,100	43,300	40,976	2,324
Employee related expenditures	15,200	13,700	12,637	1,063
Other operating expenditures	19,100	2,600	4,819	<2,219>
Local Transit Assistance Fund	3,526,150	3,526,150	3,526,150	-
Total State General Fund Program	<u>3,613,550</u>	<u>3,585,750</u>	<u>3,584,582</u>	<u>1,168</u>
Capital outlay - land, buildings and improvements	13,080,082	13,080,082	11,416,024	1,664,058
Arizona Department of Public Safety transfers	25,017,100	25,017,100	25,017,100	-
Governors Office of Highway Safety transfer	232,500	232,500	232,500	-
Expenditures appropriated by state legislature by carryover of previous year's unexpended budget	<u>1,985,785</u>	<u>1,985,785</u>	<u>1,985,785</u>	<u>-</u>
Total expenditures	<u>328,343,406</u>	<u>318,214,706</u>	<u>306,882,705</u>	<u>11,332,001</u>
Excess of revenues over expenditures	<u>\$ 198,694,994</u>	<u>\$ 208,824,694</u>	<u>\$ 213,288,475</u>	<u>\$ 4,463,781</u>

The notes to required supplementary information are an integral part of this statement.

Notes to Required Supplementary Information – Budgetary Reporting

Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay including land, building and improvements for the General Fund (State Highway Fund) are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the legislature and signature by the Governor. The legal level of control is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Agency's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be done by the program manager. Transfers of funds between programs require the approval of the Joint Legislative Budget Committee. Absent an amendment to the Agency's appropriated amount by the full legislature, expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on a cash basis except that liabilities incurred before the end of the fiscal year and paid within the next calendar month are charged against the prior fiscal year's budget. Most state appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund that is subject to legislative appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the General Fund. Any balances and collections in this fund in excess of the specific amounts appropriated in the general appropriations act are appropriated to the Department. The Department monitors expenditures through an internal budgetary process and the Five Year Transportation Facilities Construction Program approved by the Transportation Board.

The Department has elected to report the budgetary comparison as required supplementary information (RSI). The Department is required to report as notes to RSI: any budgetary expenditures in excess of appropriations, budgetary basis of accounting used for the adopted budgets and reconciliation between the budgetary basis of accounting and General Accepted Accounting Principles (GAAP).

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures:**Sources/inflows of resources:**

Actual amounts from the Schedule of Revenues and Expenditures - Budget and Actual

- General Fund	\$ 520,171,180
Net <increase> decrease in receivable related to fuel and motor carrier taxes and vehicle registration, title, license, and related fees not recognized as revenue on budgetary basis	2,867,996
Revenues which are on the modified accrual basis and not recognized on budgetary basis:	
Federal aid reimbursements of construction expenditures from the Federal Highway Administration	479,443,294
Federal grants and reimbursements related to elderly and disabled assistance, planning assistance and community assistance from the Federal Transit Administration	5,388,898
State and local reimbursements related to grants from Arizona counties, cities, and other state agencies	5,634,123
State appropriation	317,478
Investment interest and loan interest income from Treasurer and loan agreements	14,806,885
Other income from various miscellaneous sources	17,101,259
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund (Exhibit 4)	<u>\$ 1,045,731,113</u>

Uses/outflows or resources:

Actual amounts from the Schedule of Revenues and Expenditures - Budget and Actual

- General Fund	\$ 306,882,705
Net increase <decrease> in accounts payable, accrued payroll and other accruals not recognized as expenditures for budgetary basis	<1,389,533>
Expenditures which are on the modified accrual basis and not recognized on budgetary basis:	
Transportation expenditures from sources not appropriated by State legislature	7,479,691
Capital outlay are outflows of highway construction expenditures from State appropriation and federal aid reimbursements	690,250,621
State appropriation	3,863,067
Interest expense on loans borrowed from the Highway Expansion and Extension Loan Program Fund	<u>1,228,358</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund (Exhibit 4)	<u>\$ 1,008,314,909</u>

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), the Arizona Department of Transportation (Department) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include approximately 6,650 center lane miles (17,807 travel lane miles) of roads and 4,378 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the State Transportation Board on an annual basis, the Five Year Transportation Facilities Construction Program contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. The Five Year Transportation Facilities Construction Program in effect for fiscal year 2002 and beyond was adopted by the Transportation Board on June 15, 2001.

The following information pertains to the condition assessment and maintenance of these infrastructure assets.

Roads

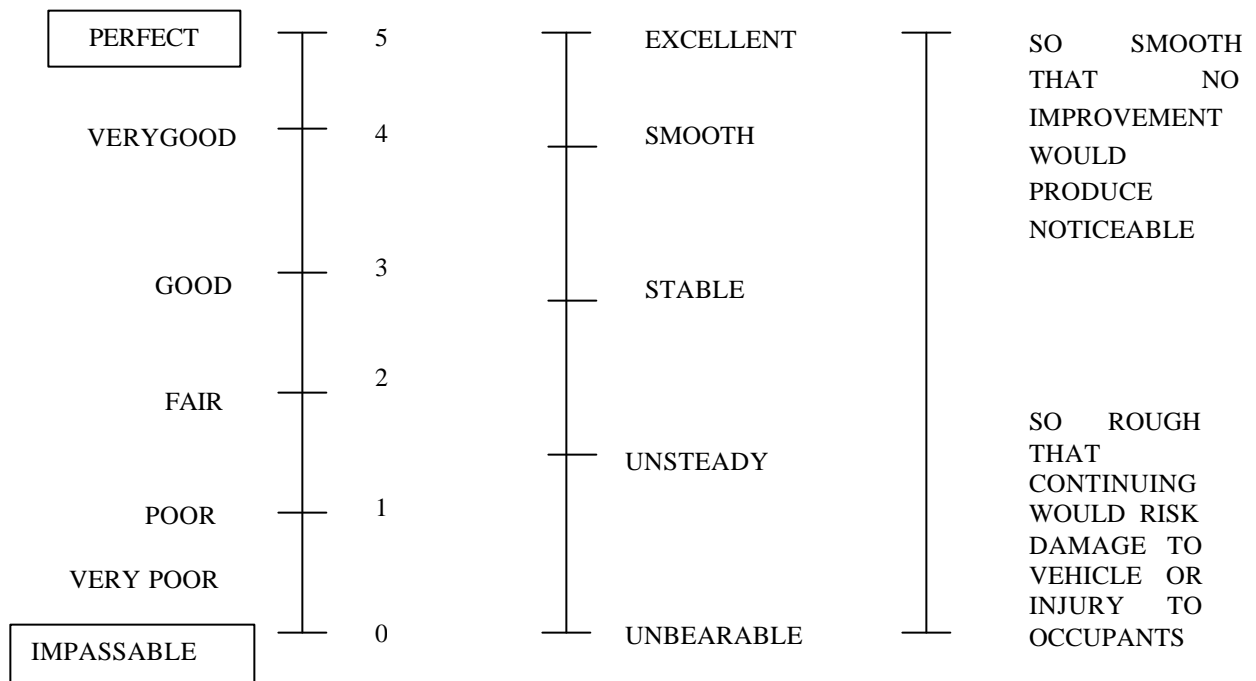
The mission of the ADOT Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the ADOT PMS both work toward the same basic goal, the efficient, effective management of ADOT assets to produce long term benefits while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as the ability of a pavement to serve the travelling public (as documented in 1961 after AASHTO Road Test, 1956-1961). Serviceability was originally based on detailed measurements of objective features of the pavement but many surveys since the original road test have shown that such measurements closely track the subjective opinion of the travelling public. Because of that close tracking, it is possible to substitute panel rating measurements by road users as a subjective assessment to determine Serviceability ratings and then use those ratings to track performance from year to year. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

Information About Infrastructure Assets Reported Using the Modified Approach - continued

The Serviceability rating method, in its most common form, is shown in Figure 1 below:



Weaver/AASHTO Scale

Figure 1

Nonsegmented Scale

The goal of the Arizona Department of Transportation is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2002, an overall rating of 3.6 was achieved, as shown in the following graph:

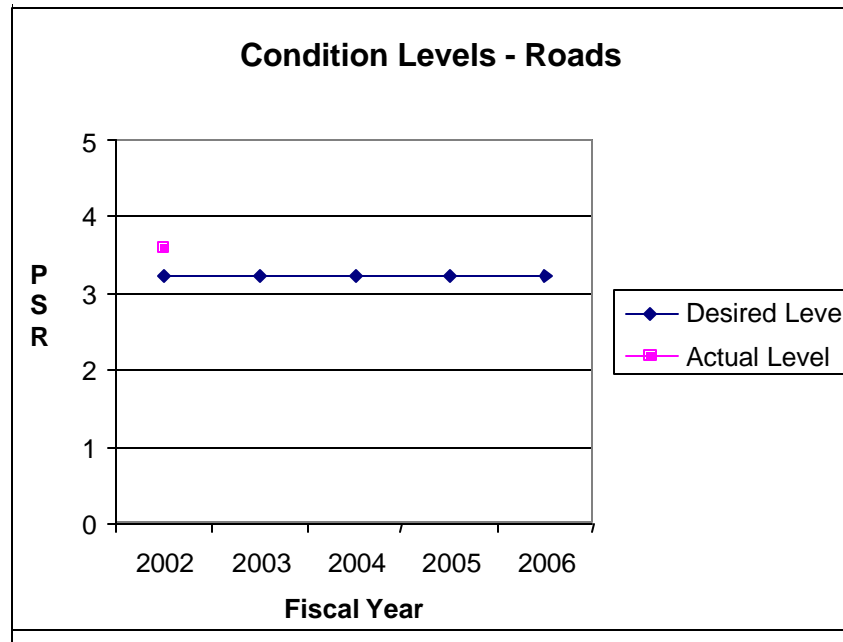


Figure 2

Preservation of the roads is accomplished through programs managed by the ADOT Pavement Management Section). The estimated and actual expenditures for fiscal year 2002 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$227.4	\$234.8

Bridges

ADOT's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2002, ADOT owns and maintains 4,378 bridges with an approximate total deck area of 39,422,410 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges". The four selected element condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the superstructure condition, and the substructure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one the ratio of the sum of the deck areas of all bridges with a condition rating of four or less, which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas.

The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of ADOT to maintain state highway bridges so that the CRI exceeds 92.5%. In fiscal year 2002, the CRI was computed at 93.6%.

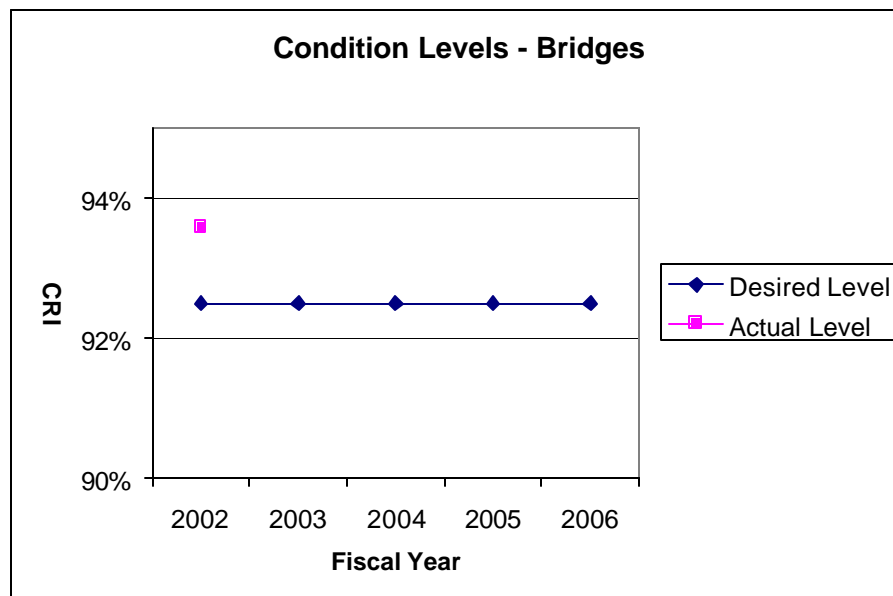


Figure 3

Bridges represent a major public investment and their inspection and maintenance is an essential function of the Department of Transportation in its mission of providing a safe and efficient transportation system. Figure 4 indicates that approximately 66% of the bridges in the state were constructed prior to the 1970s while only 20% have been constructed in the last two decades.

Age of ADOT's Bridge Population

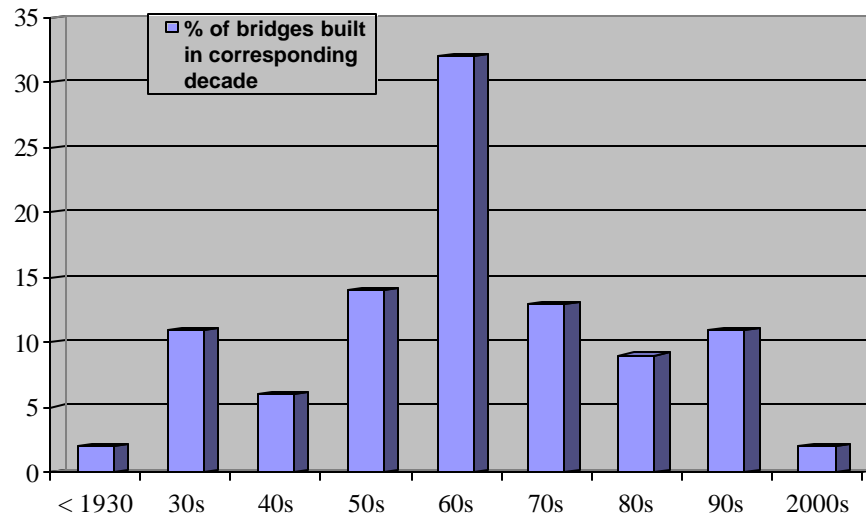


Figure 4

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated and actual expenditures for fiscal year 2002 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$14.4	\$18.2

Non-Major Governmental Funds

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The State Aviation Fund is appropriated by the legislature and receives monies from aviation gasoline taxes, sale of abandoned or seized aircraft, flight property taxes and the operation of certain airports. The State Aviation Fund monies are used to build and maintain airport facilities.

The Safety Enforcement and Transportation Infrastructure Fund is appropriated by the legislature and receives monies from the registration of vehicles of nonresidents for enforcement of vehicle safety , requirements, maintenance of transportation facilities and upgrades. of transportation facilities, including roads, streets, and highways, approved by the Transportaton Board within twenty-five miles of the border between Arizona and Mexico.

The Motor Vehicle Liability Insurance Enforcement Fund receives fees and interest to administer the State's Mandatory Liability Insurance Program.

The Vehicle Inspection and Title Enforcement Fund receives monies from continuing appropriation to be used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues.

The Grant Anticipation Notes Fund receives revenues from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues to accelerate highway construction projects.

The Local Agency Deposits Fund receives monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

The Motor Carrier Safety Revolving Fund receives fees to administer and enforce the rules governing the safety operations of motor carriers, shippers and vehicles transporting hazardous materials, substances or waste.

The Motorcycle Safety Education Fund provides support for the motorcycle licensing and education programs that promote motorcycle safety.

The Underground Storage Tank Fund receives certain Motor Vehicle Division revenues for distribution to the Department of Environmental Quality.

The Economic Strength Project Fund collects monies from the Highway User Revenue Fund for use on approved economic strength projects recommended by the Commerce and Economic Development Commission.

Arizona Department of Transportation
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2002

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund
ASSETS						
Unrestricted cash on deposit with the State Treasurer	\$ 14,585,744	\$ 4,548,444	\$ 3,527,419	\$ 1,069,362	\$ -	\$ -
Receivables:						
Accrued interest	193,848	24,108	-	-	11,245	-
Notes and loans	5,379,055	-	-	-	-	-
Other	793,914	-	-	-	-	569,398
Amounts due from:						
Other Arizona Department of Transportation funds	76,504	14,107	25,425	8,160	-	-
U.S. Government	-	-	-	-	-	1,542,839
Arizona counties, cities and other state agencies	-	24,440	-	-	-	40,552
Restricted cash on deposit with the State Treasurer	-	-	-	-	2,185,234	5,294,105
Total assets	<u>\$ 21,029,065</u>	<u>\$ 4,611,099</u>	<u>\$ 3,552,844</u>	<u>\$ 1,077,522</u>	<u>\$ 2,196,479</u>	<u>\$ 7,446,894</u>
LIABILITIES						
Accounts payable	\$ 77,588	\$ 30,335	\$ 2,457	\$ 330	\$ -	\$ -
Accrued payroll and other accrued expenditures	32,550	12,155	15,573	25,876	-	-
Contracts and retainage payable	-	-	-	-	-	2,057,828
Judgements payable	1,385,537	-	-	-	-	-
Amounts due to:						
Other Arizona Department of Transportation funds	25	-	50	-	-	-
Arizona counties, cities and other state agencies	-	-	-	-	-	-
Deferred revenue	<u>5,379,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,874,755</u>	<u>42,490</u>	<u>18,080</u>	<u>26,206</u>	<u>-</u>	<u>2,057,828</u>
FUND BALANCES						
Reserved:						
Capital projects	-	-	-	-	-	5,389,066
Debt service	-	-	-	-	2,196,479	-
Unreserved	14,154,310	4,568,609	3,534,764	1,051,316	-	-
Total fund balances	<u>14,154,310</u>	<u>4,568,609</u>	<u>3,534,764</u>	<u>1,051,316</u>	<u>2,196,479</u>	<u>5,389,066</u>
Total liabilities and fund balances	<u>\$ 21,029,065</u>	<u>\$ 4,611,099</u>	<u>\$ 3,552,844</u>	<u>\$ 1,077,522</u>	<u>\$ 2,196,479</u>	<u>\$ 7,446,894</u>

Motor Carrier Safety Revolving Fund	Motorcycle Safety Education Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Total Non-major Governmental Funds
\$ 8,459	\$ 76,334	\$ -	\$ -	\$ 23,815,762
-	-	3,119	14,046	246,366
-	-	-	-	5,379,055
-	-	-	44,188	1,407,500
-	728	-	-	124,924
-	-	-	-	1,542,839
-	-	-	-	64,992
-	-	267,644	2,920,706	10,667,689
<u>\$ 8,459</u>	<u>\$ 77,062</u>	<u>\$ 270,763</u>	<u>\$ 2,978,940</u>	<u>\$ 43,249,127</u>
\$ -	\$ -	\$ 501	\$ 44,188	\$ 155,399
-	-	-	-	86,154
-	-	-	-	2,057,828
-	-	-	-	1,385,537
-	-	-	-	75
-	-	270,262	2,934,752	3,205,014
-	-	-	-	5,379,055
-	-	270,763	2,978,940	12,269,062
-	-	-	-	5,389,066
-	-	-	-	2,196,479
<u>8,459</u>	<u>77,062</u>	-	-	<u>23,394,520</u>
<u>8,459</u>	<u>77,062</u>	-	-	<u>30,980,065</u>
<u>\$ 8,459</u>	<u>\$ 77,062</u>	<u>\$ 270,763</u>	<u>\$ 2,978,940</u>	<u>\$ 43,249,127</u>

Arizona Department of Transportation
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2002

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund
Revenues:						
Vehicle registration, title, license and related fees	\$ 4,163,773	\$ 3,316,630	\$ 2,305,940	\$ 1,289,249	\$ -	\$ -
Fuel and motor carrier taxes and fees	527,256	-	-	-	-	-
Reimbursement of construction expenditures - Federal aid	-	-	-	-	10,180,857	19,848,254
Reimbursements from Arizona counties, cities and other state agencies	-	-	-	-	-	4,111,072
Interest on loans receivable	664,838	-	-	-	-	-
Interest on investments	579,029	154,823	-	-	40,685	-
Flight property taxes	6,528,347	-	-	-	-	-
Grand Canyon National Park Airport	941,194	-	-	-	-	-
Other	<u>859,377</u>	<u>24,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,384</u>
Total revenues	14,263,814	3,495,893	2,305,940	1,289,249	10,221,542	24,033,710
Expenditures:						
Current:						
Transportation - appropriated by state legislature:						
Motor Vehicle	-	1,846,935	563,126	989,213	-	-
Highway	-	-	-	-	-	24,791,275
Aeronautics	3,490,536	-	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,665</u>	<u>-</u>
Total Transportation - appropriated by State legislature	<u>3,490,536</u>	<u>1,846,935</u>	<u>563,126</u>	<u>989,213</u>	<u>1,665</u>	<u>24,791,275</u>
Distributions to Arizona counties, cities and other state agencies	15,465,978	1,014,600	-	107,700	-	-
Capital outlay	<u>-</u>	<u>671,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>18,956,514</u>	<u>3,532,697</u>	<u>563,126</u>	<u>1,096,913</u>	<u>1,665</u>	<u>24,791,275</u>
Excess <deficiency> of revenues over <under> expenditures	<4,692,700>	<36,804>	1,742,814	192,336	10,219,877	<757,565>
Other financing sources <uses>:						
Transfers in	-	-	-	-	1,832,508	165,245
Transfers out debt service	-	-	-	-	<10,180,857>	-
Transfers out other	<u>-</u>	<u><7,411></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><88,337></u>
Total other financing sources <uses>	-	<7,411>	-	-	<8,348,349>	76,908
Net change in fund balances	<4,692,700>	<44,215>	1,742,814	192,336	1,871,528	<680,657>
Fund balances - July 1	18,847,010	4,612,824	1,791,950	858,980	324,951	6,069,723
Fund balances - June 30	<u>\$ 14,154,310</u>	<u>\$ 4,568,609</u>	<u>\$ 3,534,764</u>	<u>\$ 1,051,316</u>	<u>\$ 2,196,479</u>	<u>\$ 5,389,066</u>

Motor Carrier Safety Revolving Fund	Motorcycle Safety Education Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Total Non-major Governmental Funds
\$ 5,063	\$ -	\$ 27,399,757	\$ -	\$ 38,480,412
-	77,062	-	1,000,000	1,604,318
-	-	-	-	30,029,111
-	-	-	-	4,111,072
-	-	-	-	664,838
-	-	-	108,541	883,078
-	-	-	-	6,528,347
-	-	-	-	941,194
-	-	-	-	958,201
<u>5,063</u>	<u>77,062</u>	<u>27,399,757</u>	<u>1,108,541</u>	<u>84,200,571</u>
-	-	-	-	3,399,274
-	-	-	-	24,791,275
-	-	-	-	3,490,536
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,665</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,682,750</u>
5,000	-	27,399,757	1,108,541	45,101,576
-	-	-	-	671,162
<u>5,000</u>	<u>-</u>	<u>27,399,757</u>	<u>1,108,541</u>	<u>77,455,488</u>
63	77,062	-	-	6,745,083
-	-	-	-	1,997,753
-	-	-	-	<10,180,857>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><95,748></u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><8,278,852></u>
63	77,062	-	-	<1,533,769>
<u>8,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,513,834</u>
<u>\$ 8,459</u>	<u>\$ 77,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,980,065</u>

Capital Assets

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule by Source¹
June 30, 2002

Governmental funds capital assets:

Land	\$ 1,715,941,418
Buildings and improvements	142,715,993
Improvements other than buildings	32,948,803
Machinery and equipment	41,992,797
Infrastructure	7,444,327,275
Construction in progress	<u>1,385,665,135</u>
Total governmental funds capital assets	<u>\$ 10,763,591,421</u>

Investment in governmental funds capital assets by source:

Government funds	<u>\$ 10,763,591,421</u>
Total governmental funds capital assets	<u>\$ 10,763,591,421</u>

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund is excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity¹
June 30, 2002

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879,017	\$ 14,775,419	\$ 749,984	\$ 11,964,657	\$ -	\$ -	\$ 28,369,077
Aeronautics	-	21,604	19,593,875	988,956	-	-	20,604,435
Highway:							
Administrative and other services	935,955	33,705,229	1,521,518	3,534,735	-	-	39,697,437
Highway construction	1,699,397,056	4,594,506	268,066	4,157,204	7,444,327,275	1,385,665,135	10,538,409,242
Highway development	-	-	-	3,069,269	-	-	3,069,269
Materials engineering	-	4,821,029	-	3,331,071	-	-	8,152,100
Traffic engineering	-	316,480	17,942	969,414	-	-	1,303,836
Transportation planning and research	-	-	121,106	711,310	-	-	832,416
Highway Maintenance	4,907,328	40,234,297	7,595,582	4,992,398	-	-	57,729,605
Motor Vehicle	9,822,062	44,247,429	3,080,730	8,273,783	-	-	65,424,004
Total governmental funds capital assets	\$ 1,715,941,418	\$142,715,993	\$ 32,948,803	\$ 41,992,797	\$ 7,444,327,275	\$ 1,385,665,135	\$ 10,763,591,421

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund is excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Arizona Department of Transportation
Capital Assets used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹
For the fiscal year ended June 30, 2002

Function and Activity	Governmental Funds Capital Assets	Additions	Deductions	Governmental Funds Capital Assets
	July 1, 2001			June 30, 2002
Administration	\$ 29,591,689	\$ 1,803,477	\$ <3,026,089>	\$ 28,369,077
Aeronautics	20,574,057	30,378	-	20,604,435
Highway:				
Administrative and other services	36,030,877	4,168,934	<502,374>	39,697,437
Highway construction	8,716,531,648	934,251,640	<498,039,181>	9,152,744,107
Highway development	3,144,733	97,125	<172,589>	3,069,269
Materials engineering	7,980,368	250,038	<78,306>	8,152,100
Traffic engineering	1,254,540	49,296	-	1,303,836
Transportation planning and research	723,136	109,280	-	832,416
Highway Maintenance	54,621,819	3,237,131	<129,345>	57,729,605
Motor Vehicle	<u>62,234,840</u>	<u>3,675,139</u>	<u><485,975></u>	<u>65,424,004</u>
Functional sub-total	8,932,687,707	947,672,438	<502,433,859>	9,377,926,286
Construction in progress	<u>950,268,339</u>	<u>779,487,283</u>	<u><344,090,487></u>	<u>1,385,665,135</u>
Total governmental funds capital assets	<u>\$9,882,956,046</u>	<u>\$ 1,727,159,721</u>	<u>\$ <846,524,346></u>	<u>\$ 10,763,591,421</u>

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund is excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Statistical

Arizona Department of Transportation
Government-wide Expense by Function
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal						Transportation -	Distributions to				Highway	
Year	Administration	Aeronautics	Highway	Highway	Motor	not appropriated	Arizona	Interest on		Other	Arizona	Highway
				Maintenance	Vehicle	by the State	counties, cities	long-term			Highways	Expansion
						legislature	and other State	debt			Magazine	and
							agencies					Loan
												Program
												Total
2002	\$ 57,864	\$ 3,751	\$ 160,481	\$ 91,569	\$ 82,904	\$ 7,482	\$ 1,064,560	\$ 89,605	\$ 6,844	\$ 10,711	\$ 5,265	\$ 1,581,036

Note: Implemented GASB 34 in fiscal year 2002. Therefore, government-wide financial information for years prior to fiscal year 2002 is not available.

Table 2

Arizona Department of Transportation
Government-wide Revenues
For the fiscal year ended June 30
(Thousands of Dollars)

PROGRAM REVENUES				GENERAL REVENUES			
Fiscal Year	Charges for Services	Operating	Capital Grants	Taxes	Other	Interest on	Total
		Grants and Contributions	and Contributions		Revenues	Investments	
2002	\$ 124,565	\$ 56,481	\$ 470,772	\$ 1,720,030	\$ 27,148	\$ 35,488	\$ 2,434,484

Note: Implemented GASB 34 in fiscal year 2002. Therefore, government-wide financial information for years prior to fiscal year 2002 is not available.

Table 3

Arizona Department of Transportation
General Governmental Expenditures by Function
Last Ten Fiscal Years
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Administration/1	Aeronautics	Highway/2	Highway Maintenance	Motor Vehicle	Transportation - not appropriated by the State legislature	Distributions to Arizona counties, cities and other State agencies/3	Debt Service	Capital Outlay/4	Other/5	Total
2002	\$ 56,230	\$ 3,491	\$ 68,369	\$ 89,314	\$ 81,012	\$ 7,480	\$ 1,038,314	\$ 292,979	\$ 1,098,437	\$ 33,526	\$ 2,769,152
2001	48,150	18,280	43,117	89,400	77,337	-	-	292,930	1,008,590	34,310	1,612,114
2000	47,847	21,640	42,302	83,398	74,492	-	-	253,823	941,913	43,927	1,509,342
1999	44,648	26,787	42,035	79,304	67,144	-	-	226,928	853,695	62,600	1,403,141
1998	43,914	30,734	41,381	76,597	63,056	-	-	199,948	602,955	65,625	1,124,210
1997	43,981	18,975	40,230	70,336	30,147	-	-	210,446	540,203	84,433	1,038,751
1996	36,406	11,107	111,884	-	33,486	-	-	200,364	555,087	87,960	1,036,294
1995	36,933	9,239	111,876	-	35,221	-	-	182,554	418,601	57,757	852,181
1994	45,363	13,579	107,756	-	27,992	-	-	181,519	481,538	78,254	936,001
1993	38,473	17,279	114,777	-	30,776	-	-	168,684	446,676	66,274	882,939

②

Notes: Implemented GASB 34 in FY 2002 include expenditures that were considered Agency Funds in prior years.

/1 Includes the Director's Office, Financial Management (formerly Administrative) Services, Transportation Support Services and the Department's Risk Management Premium.

/2 Includes Transportation Planning for FY 1997-2000.
Includes Highway Maintenance for FY 1993-1996.

/3 FY 2002 includes expenditures that are distributed to General Fund, Cities, Counties and Other State Agencies.

/4 Named Highway Construction in years prior to FY 2002. For years prior to 1999, includes Expendable Trust Fund.

/5 FY 2002 includes interest on loans payable, State appropriations and DPS distributions - appropriated by State legislature.

FY 2001 includes other and Arizona Department of Public Safety (DPS) distributions - appropriated by State legislature.

Includes Transportation not appropriated, Land, Buildings & Improvements, Leases Payable and Transfers for FY 1997-2000.

Includes Reimbursements, Transfers, Director's Office, Highway Safety Office and Land, Buildings and Improvements for FY 1993-1996.

Table 4

Arizona Department of Transportation
General Governmental Revenues by Source
Last Ten Fiscal Years
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Transportation Excise Taxes/1	Motor Fuel Taxes and Fees/1	Vehicle Reg., Title, License and Related Fees/1	Expenditures of Federal Awards /2	Reimburse- ments	Interest on Investments	Other/3	Total /4
2002	\$ 267,563	\$ 547,129	\$ 1,003,499	\$ 522,036	\$ 12,664	\$ 29,697	\$ 34,405	2,416,993
2001	-	300,750	219,746	428,290	17,150	44,648	292,416	1,303,000
2000	-	276,189	255,088	414,015	18,788	41,534	267,004	1,272,618
1999	-	298,394	250,121	401,464	15,748	34,377	257,479	1,257,583
1998	-	273,806	210,370	283,982	8,505	34,382	223,486	1,034,531
1997	-	288,878	198,002	305,438	15,083	33,238	231,792	1,072,431
1996	-	291,000	171,823	268,605	32,711	29,603	228,698	1,022,440
1995	-	293,870	133,689	225,607	17,808	22,340	190,498	883,812
1994	-	280,394	117,412	261,000	13,130	14,229	177,561	863,726
1993	-	264,307	102,524	183,407	22,604	18,560	153,333	744,735

Notes: Due to the implementation of GASB 34, FY 2002 includes revenues that were considered Agency Funds in prior years.

/1 FY 2002 include revenues that are being collected for distribution to General Fund, Cities, Counties and other State Agencies.

/2 For years prior to 1999, includes Expendable Trust Fund.

/3 Includes interest on loans receivable, flight property taxes, Grand Canyon National Airport and other.

/4 Method of accounting for taxpayer assessed revenues has been changed due to the adoption of GASB Statement No. 22 during fiscal year 1995.

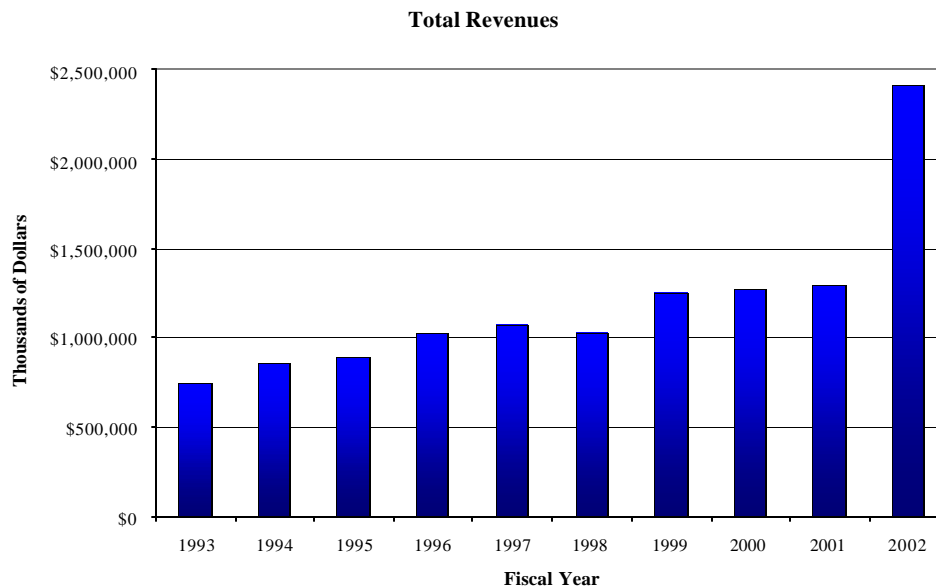


Table 5

Arizona Department of Transportation
Expenditures of Federal Awards /1
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	FMCSA	BLM	BIA	Sub-total	FHWA /2	Total
2002	\$ -	\$ 3	\$ 5,264	\$ 83	\$ 496,509	\$ 282	\$ 47	\$ -	\$ 502,188	\$ 19,848	\$ 522,036
2001	-	14	4,746	65	390,204	-	-	-	395,029	33,261	428,290
2000	6	2	3,717	65	409,177	-	-	1,048	414,015	15,219	429,234
1999	6,278	69	5,107	275	388,761	-	-	974	401,464	17,748	419,212
1998	2,379	14	3,392	49	278,148	-	-	-	283,982	-	283,982
1997	91	130	2,508	-	302,633	-	-	76	305,438	-	305,438
1996	506	499	3,552	-	261,820	-	-	2,228	268,605	-	268,605
1995	849	475	1,687	-	221,818	-	28	750	225,607	-	225,607
1994	129	437	3,448	-	256,986	-	-	-	261,000	-	261,000
1993	3,208	441	1,715	55	177,968	-	20	-	183,407	-	183,407

SOURCE: Single Audit Reports - fiscal years 1993 through 2002

NOTES: /1 Federal Aviation Administration (FAA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA) - previously Urban Mass Transit Administration (UMTA); National Highway Transportation Safety Administration (NHTSA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Bureau of Land Management (BLM); Bureau of Indian Affairs (BIA); and Department of Agriculture (DOA).

/2 Prior to 1999, the Local Agency Deposits Fund was an Expendable Trust Fund. It is now a Special Revenue Fund.

Total Expenditures of Federal Awards

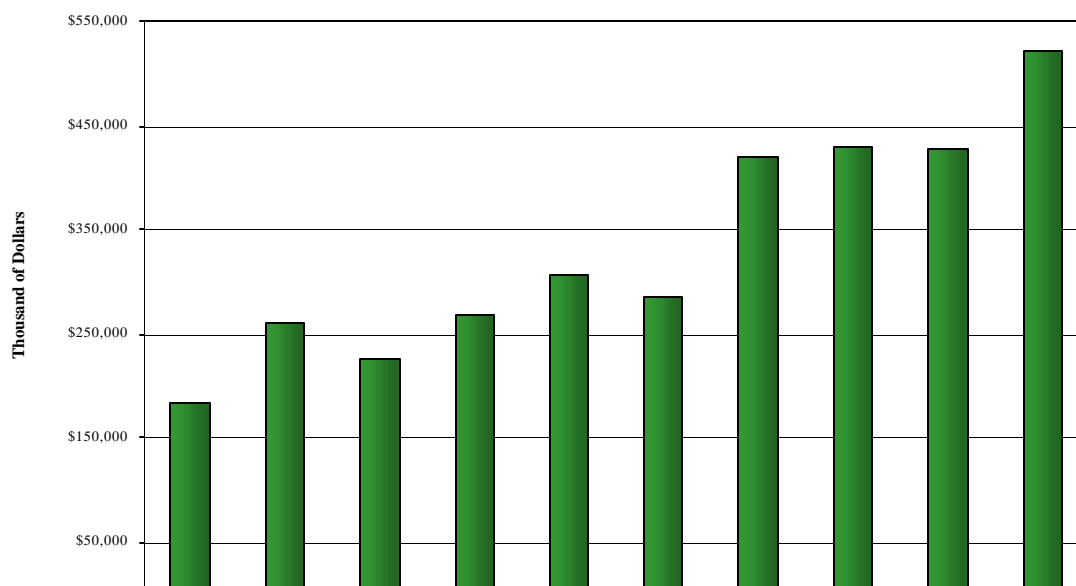


Table 6

Arizona Department of Transportation
 Fuel Tax Rates
 For the fiscal year ended June 30
 (Cents per Gallon)

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Gasoline Tax</u>	<u>Use Fuel Tax /1</u>
2002	-	18	26
2001	07/01/2000	18	26
2000	-	18	27
1999	-	18	27
1998	12/31/1997	18	27
1997	-	18	18
1996	-	18	18
1995	-	18	18
1994	-	18	18
1993	-	18	18

SOURCE: Arizona Revised Statutes §28-5606, §28-5708

NOTE: Gasohol is currently taxed at the same rate as gasoline
 and use fuel. Use fuel is primarily diesel fuel.

/1 Lightweight motor vehicles under 26,000 pounds pay \$.18 per gallon.

Table 7

Arizona Department of Transportation
Highway User Revenue Fund Collections
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Motor Veh. Fuel Tax Revenue	Motor Veh. Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Veh. Operators' License Fees and Other Fees	Motor Veh. License (In Lieu) Tax Revenues	Total Deposited To Arizona Hwy. User Rev. Fund
2002	\$ 629,360	\$ 151,437	\$ 11,896	\$ 40,122	\$ 259,308	\$ 1,092,123
2001	566,115	148,336	15,094	43,248	251,496	1,024,289
2000	545,901	158,424	15,040	43,508	235,287	998,160
1999	636,117	145,340	14,409	15,939	217,905	1,029,710
1998	508,544	109,445	56,123	36,426	176,950	887,488
1997	488,701	101,528	90,186	41,294	175,253	896,962
1996	473,741	97,601	85,433	42,654	160,145	859,574
1995	451,089	86,159	92,103	39,238	131,562	800,151
1994	422,556	83,826	118,530	37,161	113,990	776,063
1993	387,235	80,717	120,303	24,161	105,027	717,443

SOURCES: General Purpose Financial Statement - Fiscal Years 1999 through 2002.

Arizona Highway User Revenue Fund Revenue Collections by Category -
Fiscal Years 1993 through 1998.

Highway User Revenue Fund Collections

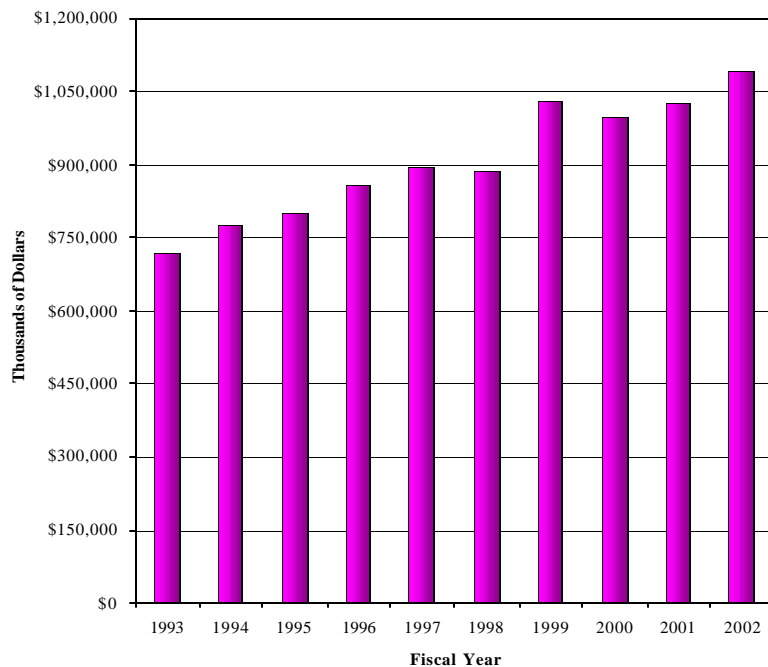


Table 8

Arizona Department of Transportation
Highway User Revenue Fund Distributions
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	State Highway Fund /1	Cities and Towns	Counties	Department of Public Safety	Economic Strength Project Fund	Other /2	Total
2002	\$ 519,837	\$ 312,252	\$ 195,530	\$ 37,066	\$ 1,000	\$ 26,438	\$ 1,092,123
2001	503,611	305,009	188,982	10,937	1,000	14,750	1,024,289
2000	493,697	323,798	157,594	13,622	1,000	8,449	998,160
1999	512,149	295,879	199,591	12,630	1,000	8,461	1,029,710
1998	435,882	263,220	163,973	14,688	1,000	8,519	887,282
1997	444,927	268,696	167,350	17,188	1,000	9,289	908,450
1996	429,171	256,901	152,571	19,688	1,000	9,304	868,635
1995	412,206	244,512	145,349	20,000	1,000	9,084	832,151
1994	406,376	205,479	134,511	24,925	1,000	532	772,823
1993	355,304	210,531	124,468	24,928	1,000	1,212	717,443

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund and various counties and cities, based on statutory formulas.

SOURCES: General Purpose Financial Statement - Fiscal Years 1994 through 2002.

Highway User Revenue Fund Schedule 1 Summary for Revenue Collected - Fiscal Year 1993.

Monthly Reports MV675580-01 fiscal years 1993 through 2002 (adjusted for accrual basis in years 1994 through 2002).

NOTES: /1 In fiscal year 1995, HB 2431 authorized the transfer of \$1 million for border transportation projects.

/2 Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration for fiscal years 1993 and 1994. In fiscal years 1995 through 2002, an appropriation for Arizona State Parks is included. In 2002, includes distribution to State General Fund.

Table 9

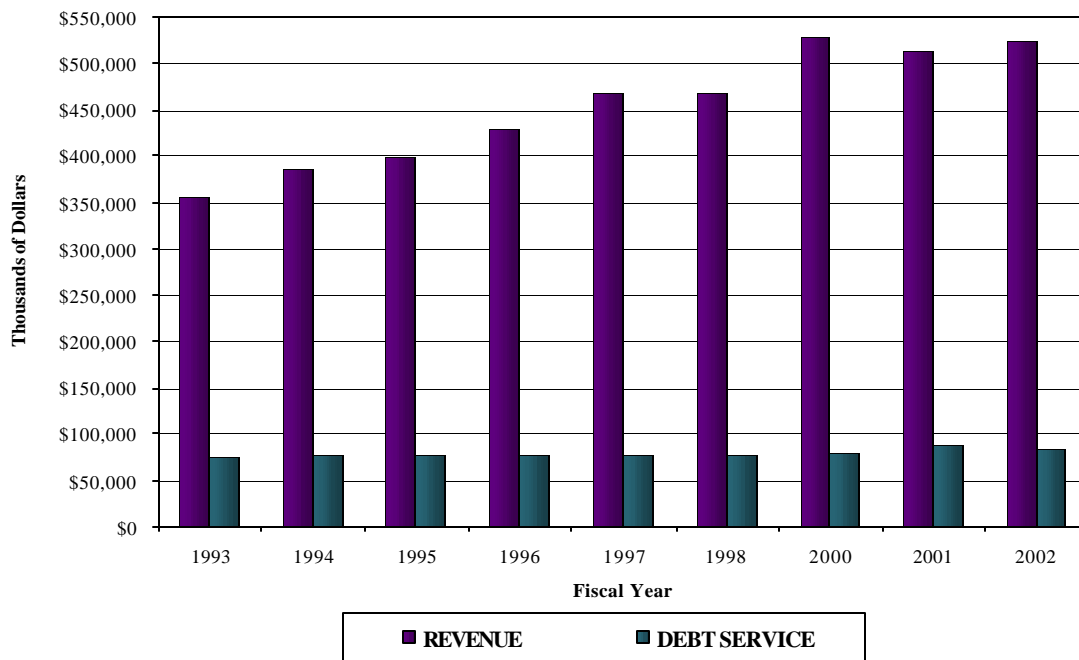
Arizona Department of Transportation
Bond Coverage
Highway User Revenue Fund Series
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues /1	Coverage
2002	\$ 45,365	\$ 38,534	\$ 83,899	\$ 523,326	6.2
2001	52,055	36,581	88,636	513,890	5.8
2000	46,270	33,994	80,264	528,721	6.6
1999	43,805	31,090	74,895	509,935	6.8
1998	43,405	33,266	76,671	468,240	6.1
1997	40,970	36,148	77,118	468,542	6.1
1996	38,430	38,770	77,200	429,825	5.6
1995	36,330	40,974	77,304	399,605	5.2
1994	33,425	44,037	77,462	385,844	5.0
1993	27,865	48,289	76,154	355,304	4.7

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected
Monthly Reports MV675577-1 fiscal years 1993 through 2001;
Debt Service Funds - fiscal years 1993 through 2002.

/1 For fiscal years 1993 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Highway User Revenue Fund Series Bond Coverage



Arizona Department of Transportation
Bond Coverage
Regional Area Road Fund Series
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Revenues	Coverage
2002	\$ 163,455	\$ 35,445	\$ 198,900	\$ 267,563	1.3
2001	156,865	40,035	196,900	264,722	1.3
2000	128,805	42,609	171,414	248,596	1.5
1999	106,765	43,251	150,016	229,470	1.5
1998	82,765	40,512	123,277	209,263	1.7
1997	78,015	45,248	123,263	192,257	1.6
1996	76,955	46,209	123,164	178,413	1.4
1995	57,930	47,320	105,250	160,319	1.5
1994	54,710	49,347	104,057	142,846	1.4
1993	45,650	46,880	92,530	127,273	1.4

SOURCE: Maricopa County Regional Area Road Fund Report.

NOTE: Bond coverage ratio is based upon total Maricopa County Transportation Excise Tax collections.

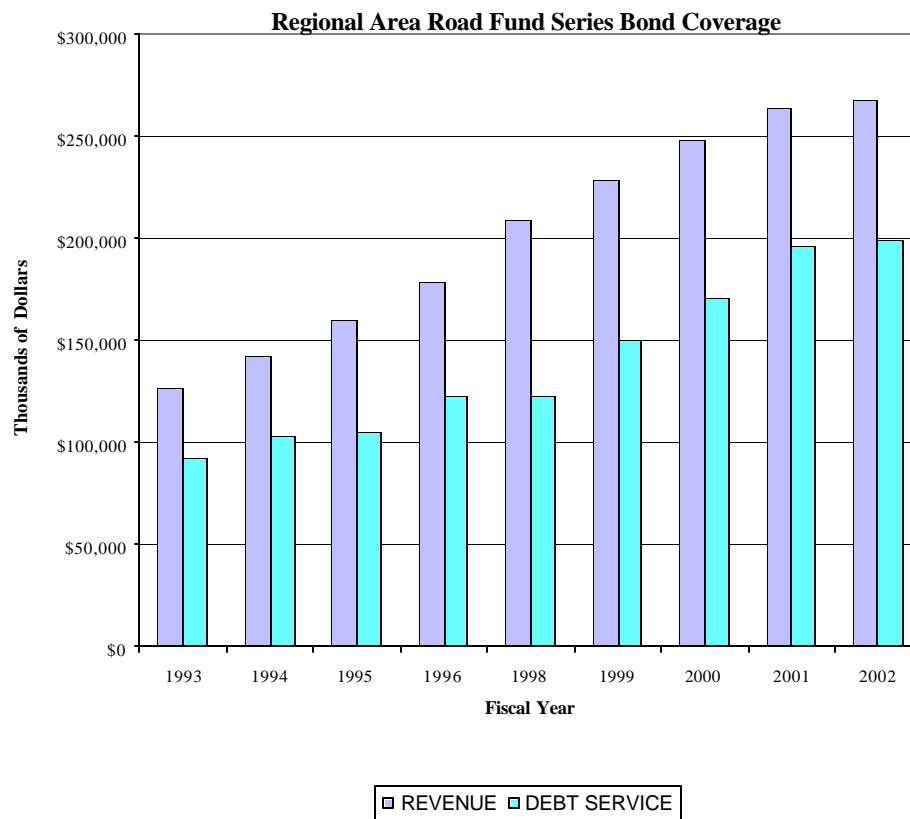


Table 11

Arizona Department of Transportation
Total Public Road Mileage By Highway Class and Governmental Ownership
For the calendar year ended December 31, 2001
(With comparative totals for the calendar year ended December 31, 2000)
(In Center Lane Miles)

FUNCTIONAL CLASSIFICATION	STATE	COUNTY	MUNICIPAL	FEDERAL	TOTAL	
					2001	2000
RURAL:						
Interstate Freeway	996	-	-	-	996	995
Principal Arterial	1,117	45	17	7	1,186	1,184
Minor Arterial	1,134	100	23	-	1,257	1,256
Major Collector	1,847	1,548	241	843	4,479	4,487
Minor Collector	366	1,159	62	716	2,303	2,304
Local	372	14,836	1,835	9,976	27,019	26,663
TOTAL RURAL	5,832	17,688	2,178	11,542	37,240	36,889
URBAN:						
Interstate Freeway	172	-	-	-	172	172
Urban Expressway	132	2	9	-	143	126
Principal Arterial	264	80	657	-	1,001	1,021
Minor Arterial	126	268	873	5	1,272	1,297
Urban Collector	5	476	1,233	20	1,734	1,739
Local	119	1,295	11,887	381	13,682	13,950
TOTAL URBAN	818	2,121	14,659	406	18,004	18,305
STATEWIDE COMPOSITE:						
Freeways and Expressways	1,300	2	9	-	1,311	1,293
Arterials	2,641	493	1,570	12	4,716	4,758
Collectors	2,218	3,183	1,536	1,579	8,516	8,530
Locals	491	16,131	13,722	10,357	40,701	40,613
TOTAL STATEWIDE	6,650	19,809	16,837	11,948	55,244	55,194

Source: Arizona's Highway Performance Monitoring System (HPMS) 2001 & 2000 Data

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by Financial Management Services, Fiscal Operations:

Craig Rudolphy, MBA, CGFM, CPA, CPFO
Theresa Simms, MBA, CGFM, CPA
Lawrence H. Ehrke, Jr., MBA
Julie Phelps, MBA
Stanley Brown, MS
Mantian Xu, MA
Richard Gromoll, MBA
Christopher Kipiani
Trang Huynh
John Ralston, CPA
Marsha Bloom, CPA
Patricia Markiw, CPA

Special acknowledgment goes to:

All Financial Management Services staff whose cooperation and hard work contributed to the compilation of financial information that appears in this report.

A special thank you to Ronald Loar of the Transportation Planning Division for his graphic design and photography.

**State of Arizona
Department of Transportation
206 S. 17th Ave.
Phoenix, AZ
85007**